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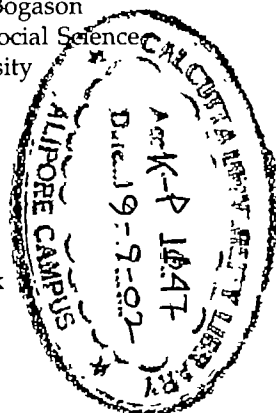
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ARTICLES

ANALYSIS OF CHANGES IN EXTERNAL ACCOUNTABILITY AND ACCOUNTING IN PRIVATIZED INDUSTRIES: A CASE STUDY OF BRITISH GAS

LYNNE CONRAD AND MICHAEL SHERER

This study investigates the consequences of regulation for organizational and accounting change in privatized industries by means of a case study of the gas industry, with particular emphasis on issues of accountability and the role of accounting information. The paper extends Stewart and Ranson's (1988) discussion of the distinctive conditions which apply to public and private sector organizations by highlighting an important interim phase in relation to privatized industries, where public service obligations coexist to varying degrees with private sector objectives. The extension of their framework of public and private sector models to include a new 'commercial' model provides the basis for an analytical framework encompassing the three cultures – that is, public service, commercial and competition – which is used to understand organizational change in the gas industry.

INTRODUCTION

This paper reports and analyses the findings from a case study of developments in external accountability and accounting in the British gas industry during the period 1986 to 1998. These developments arose in the context of broader organizational changes resulting from the transformation of the nationalized British Gas Corporation into the privatized and regulated utility, British Gas. The research identifies three separate phases which are characterized for analytical purposes as three cultures, namely 'public service', 'commercial' and 'competition', and uses this framework to analyse and understand the changes that have taken place in external accountability

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and accounting. The research presented in this paper offers a rigorous analysis and assessment of the process of change in one privatized industry, British Gas (hereafter BG), to better understand how such organizations accommodate, resist and absorb the consequences of regulatory change.

This study was carried out by means of a case study of the gas industry. The case study method was selected in order to make use of its holistic approach to understanding organizational and accounting change. It is also consistent with the interpretive methodology adopted for the study in that it enables researchers to use theory to subjectively interpret action in an effort to understand how social order is produced and reproduced (Ryan, Scapens and Theobald 1993). An important part of the research consisted of semi-structured interviews with staff in the industry and relevant regulatory bodies together with other interested parties.

Twenty eight interviews in all were conducted, including 18 with senior management of British Gas in the fields of Finance, Regulatory Affairs and Personnel. Views were sought from individuals in several Business Units, including Transco (the transportation arm), Public Gas Supply (PGS) (domestic market supply) and Business Gas (industrial and commercial market supply – subsequently re-merged with PGS), as well as Corporate Headquarters staff. Additionally, interviews were held with 2 individuals from OFGAS, 2 from the MMC, 3 new competitors in the industry, 1 consultant (former City analyst in Oil and Gas) and 2 academics with a particular interest in the regulation of privatized industries. All interviews were tape-recorded.

The interviews were used to provide an oral history of the dynamics that took place in British Gas during the transition from nationalized utility to a regulated company listed on the Stock Exchange and subject to the rigours of market competition. The interviews were timely in two senses. First, for many of those interviewed, the events during this period, and their perceptions of those events, became indelibly marked on their consciousness. Second, soon after the interviews took place, many of the individuals who had been intimately involved in the developments before and after privatization were made redundant – victims of the dynamic processes that are the subject of this paper. It is also important to note that interviewees were selected based on advice from personal contacts as to who were the most knowledgeable and relevant people to speak to, rather than as a result of being directed towards only those who would provide the 'party line', as might have occurred had it been necessary to seek permission from, for example, a Managing Director in order to conduct interviews. Discussions with such a broad range of senior management, targeted at individuals who had been with the company since pre-privatization days, provided a rich source of valuable information that allowed us to address the research questions of this study.

This study contributes to the body of knowledge on the impact of regulation on privatized industries by providing a contextual analysis of

organizational change in the gas industry, and also by providing a critique of the change which has taken place. The results of this research have potential policy implications for the future economic and political regulation of privatized industries, including the structure of regulatory bodies as multiple service provision by individual utilities is extended in the future. It highlights the far-reaching consequences for the gas industry of some of the limitations of the existing system of regulation. There are relatively few such studies of privatized industries and none, as far as the authors are aware, of the privatized gas industry.

The government Green Paper, 'A Fair Deal for Consumers' (The Stationery Office 1998) deals with many of the same policy issues raised in the present paper and reaches similar conclusions. In particular, it argues for the need to strengthen the existing regulatory framework in order to adequately define the roles of regulator and government to avoid the danger of an unconstrained and unaccountable regulator. It also asserts that there is a need for more openness and accountability in regulation to ensure that it is transparent, predictable and consistent. Recognition of the possible dangers of unconstrained competition in provision of essential services is provided in the recommendation that there should be introduced a new primary statutory duty for regulators – to protect consumers *where possible* by the promotion of competition. It also suggests that consumer representation should have an independent statutory basis and that regulators should be required to consult consumer bodies in reaching key decisions. These last two recommendations both recognize that competition will not necessarily best serve the interests of customers. It may yet transpire that the changes undergone in the gas industry were to the detriment of organizational effectiveness, and consequently also to the detriment of customers, and this paper demonstrates that many of these changes came about as a result of the limitations of the existing regulatory structures.

The next section of the paper identifies and describes our conceptual framework for analysing and understanding the changes in external accountability and accounting that have taken place in the gas industry during the period of the study.

THE THREE CULTURES FRAMEWORK

The theoretical framework adopted in this paper is based on Stewart and Ranson's (1988) identification of key characteristics of two contrasting ideal-type organizations, the public sector model and the private sector model; a detailed exposition of these models can be found in their paper. Although this distinction is useful and provides a starting point for analysing changes in external accountability and accounting in a privatized industry, these two ideal-types failed to capture the complexity and the dynamics of the period of transition in the gas industry. While Stewart and Ranson's (1988) analytical framework highlights the dangers of imposing private sector values and rationalities on public sector organizations, nevertheless, for

British Gas, there was a requirement to privatize. Therefore, in attempting to chart the processes of change from a nationalized to a privatized industry it was found necessary to extend this framework by including an intermediate stage between the public sector model and the private sector model. This intermediate stage is identified as the commercial model and it exhibits characteristics that distinguish it from the other two models.

Table 1 summarizes our conceptual framework for analysing organizational change in privatized industries. Stewart and Ranson's (1988) public and private sector models form the basis of the public service and competition cultures. The public service culture embodied the principles of the welfare state, with nationalized industries existing to ensure full and fair access to essential services for all at a fair price and to contribute towards providing full employment. They were accountable for provision of a universal service, recognizing the rights of citizens, and were formally accountable to the public via the relevant Minister, and through him to Parliament. The commercial culture emerged in the early years following privatization, and paralleled efforts to introduce managerialism into the public sector more generally (Flynn 1993). Based on a belief that management of public sector organizations was complacent and inefficient due to a lack of market pressures to improve performance, nationalized industries were privatized in an effort to introduce more financial discipline, with accountability to shareholders replacing ministerial accountability. Thus financial measures took on new importance (Humphrey, Miller and Scapens 1993) as management found themselves encouraged to pursue financial success, albeit tempered by the dominance of the industry regulator, given that the new organizational forms were in fact privatized monopolies. Eventually, and after much conflict, the competition culture emerged,

TABLE 1 *Summary of the three cultures*

Public service culture	Commercial culture	Competition culture
Collective choice in the polity	Shareholder ownership	Individual choice in the market
Need for resources	Cost effectiveness	Demand and price
Openness for public action	Managerialism	Closure for private action
The equity of need	The equity of financial measures	The equity of the market
The search for justice	The search for enhanced financial returns	The search for market satisfaction
Citizenship	Consumerism	Customer sovereignty
Collective action as the instrument of the polity	Profitability as the instrument of the business environment	Competition as the instrument of the market
Voice as the condition	Consumer rights	Exit as the stimulus

underpinned by principles of free-market economics, and belief in the superiority of market forces in the allocation of resources. The regulator remained dominant, as transition to the new culture took place, taking steps to positively promote competition and help new entrants become established in the market.

The remainder of this paper will analyse chronologically the developments in external accountability and accounting practices in the gas industry within the framework of these three cultures of public service, commercial and competition.

ANALYSIS OF THE CHANGES IN EXTERNAL ACCOUNTABILITY IN THE GAS INDUSTRY USING THE THREE CULTURES FRAMEWORK

External accountability is concerned with the relationship between the organization, including its managers, and its external stakeholders. Day and Klein (1987, p. 2) say: 'Accountability is a social and political process – it is about perceptions and power.' They identify three aspects of accountability: political, managerial and moral. Political accountability relates to the expectations of citizens in society, while managerial accountability is about making managers answerable for the economy, efficiency and effectiveness of their performance, and moral accountability is about being answerable for proper conduct. In an uncomplicated situation one might expect that those with political accountability would set policy objectives and devise the criteria by which the various aspects of performance of those with managerial accountability could be judged. In today's complex world, and in particular in relation to the service-delivery state, Day and Klein (1987) suggest that the institutional and organizational links between political and managerial accountability may not exist or may not be effective. Additionally, political processes may not satisfactorily delineate objectives or assessment criteria and organizational structures may be unequal to the task of ensuring that managers can answer for the actions and performance of the service deliverers. They suggest that these shortcomings may have contributed to the rise of a third concept of moral accountability, the idea of being answerable, not to the people but in terms of proper conduct.

Initiatives introduced into various parts of the public sector, including the National Health Service, local authorities and schools, were characteristic of attempts by government to render more visible the economy, efficiency and effectiveness of public service operations, and consequently to increase accountability for performance by service providers (Hood 1991; Pollitt 1990). The rationale was to introduce the market-based practices of private companies, by means of surrogates for competition such as purchaser/provider split, the growth of contractual arrangements and flexibility in pay and conditions for staff to enable high performance to be rewarded. Rafts of performance indicators have been devised to enhance visibility (Wilson and Hinton 1993; Carter 1991; Pollitt 1990). The appropri-

ateness of private sector practices for public sector organizations has been contested by a number of authors (Stewart and Ranson 1988; Humphrey 1994).

The following sections describe the changes in external accountability in the gas industry in the context of the three cultures, public service, commercial and competition. There are important issues of accountability relating to political and economic aspects of control. Relevant issues include the extent of the regulator's power over major industries and lack of formal accountability mechanisms. The existence of several regulatory bodies can also cause problems. Accountability issues are fundamental to the concerns raised by authors such as Rees and Vickers (1995) regarding political and regulatory risk. The existence of several stakeholder groups, often with conflicting interests, is discussed, as is the controversy over the appropriateness of private sector practices for public services.

Public service culture

In the public service culture, political accountability is very important, given that the nationalized industry should be seen to be run in the public interest. Drawing on principles which emphasize citizens' rights to equity and justice and openness for public debate and action, systems of accountability were set up with the aim of ensuring that industry management was publicly accountable via the relevant Secretary of State to Parliament. Although Ministers were answerable to Parliament for actions they took, they were still able to exert informal pressures on management without accountability. This led to a situation where very few formal directives were issued but where the threat of their use, together with ministerial powers for appointment to the Board, enabled politicians to intervene informally to a significant extent in decision-making. The Minister legitimated his interference by reference to the public interest, but this tended to be defined according to the interests of the political party in power.

The systems of accountability in operation were in conflict with the objectives of the public service culture of which they were a part. Another issue identified in this study, related to poor performance, was the conflict between a 'public service' ethos and a 'public sector' ethos. A 'public service' ethos is concerned primarily with the provision of essential services to all who need them. It recognizes that stakeholders include citizens as well as customers and employees and that quality of service and equity should not be sacrificed for efficiency, as illustrated by this comment from a British Gas Treasury Executive:

A distinctive feature, characteristic of many public service type jobs, was a culture of service. Long before privatization, I remember our coffee mats: 'Beauti-fuel gas, use it wisely' and 'Gas people care'. It all made you feel in a sense a national servant, and I mean it in the finest sense, rather than a civil servant.

In contrast, a 'public sector' ethos tends to have an introspective focus, with managers and employees placing more emphasis on the internal goals of the organization – for example, pay, working conditions, job security, mechanistic application of rules and procedures – rather than on external stakeholders. Many individuals referred to key features of being an employee of BG, which included the security of a job for life, promotion based on seniority and pay rises resulting from national wage negotiations and agreements, all of which protected organizational members from the exigencies of the market, including being responsive to customer needs:

Thinking about what a public service ethos is, on the positive side is a dedication to customer service, delivery, safety and security. On the negative side is 'civil servant' – jobs for life, don't need to be responsive to the market, don't need to change processes, slow decision-making.' (Senior Finance Executive)

Commercial culture

There are several important changes to accountabilities that took place as a result of privatization. The Gas Act 1986 instituted a new social and political process of accountability in the setting up of the new regulatory body, the Office of Gas Supply (OFGAS). It also provided a new language of accountability, in defining the rights and duties of regulator and regulated, giving the regulator the right to hold the industry to account. In relation to managerial accountability, the Board, instead of being accountable to the Minister, became accountable to the industry regulator, the Director General (DG) of OFGAS. Additionally, a new accountability to shareholders introduced a new emphasis on the language of financial accountability and legitimated the pursuit of profit and enhanced shareholder value. Conflicts exist in the objectives of regulators and shareholders, which in turn create conflicts for management in trying to satisfy the requirements of both. The Monopolies and Mergers Commission (MMC) and Office of Fair Trading (OFT) were also involved in the regulatory process, and BG experienced conflicts in trying to satisfy the requirements of the different regulatory bodies. The environment facing a regulated industry is clearly much more complex than those which ordinarily face an organization in the private sector. Prior to the advent of privatization, the division was between public and private sector organizations, where management of the former had political accountability and of the latter shareholder accountability. An important objective of privatization was to remove the nationalized industries from political control in the belief that control by the market would ensure greater efficiency.

However, the existence of the regulator complicates matters, as the regulator defines the economic environment to some extent by imposing the price-cap and imposing standards of service which the industry must meet. Well-defined objectives were still absent and now the problem was exacerbated by a lack of political accountability on the part of an unelected but

powerful figure – the regulator. Industry management were in a difficult position since they knew that failure to co-operate with the regulator would automatically lead to an expensive and time-consuming MMC inquiry. On the other hand, if they felt they were being treated unjustly by the regulator, they had little recourse since they had no automatic entitlement to request an MMC inquiry themselves. The regulator's duties under the original legislation included a primary duty of ensuring universal service, and secondary duties in relation to consumer protection and promotion of competition. He was also required to ensure that BG remained financially solvent. The extent to which the regulator is publicly (politically) accountable is a matter of considerable controversy. Public accountability was constrained by the fact that the regulator could not fully disclose the basis of his decisions due to commercial confidentiality.

Members of BG management said that the increased severity of the price-cap when it was revised from RPI-2 to RPI-5 in 1991 was accompanied by no reasoning, but simply imposed. There had been plenty of demands for information from the regulator, but no consultation:

McKinnon had to reset the price formula and did not know what to do. He set X equal to 5, sure that BG would not accept. Then there could be a full MMC inquiry, leading to a fair X. Instead BG accepted it, and McKinnon wondered if X should perhaps have been set equal to 7. He expected negotiation, but we accepted. Why? I suspect that the presence of Peter Walker in the Boardroom and an unwillingness to have a confrontation between BG and the government with yet another election coming up had something to do with it. (Senior Treasury executive)

The comment illustrates the ill-defined nature of the formula-setting process, and also the potential for continuing political interference in regulation, the avoidance of which was one objective of privatization. Despite the disparity in resources between the office of the regulator and BG, it is clear that by 1992 the regulator was very effectively making use of the powers available to him to effect significant change in the gas industry.

In terms of the commercial culture, and its new emphasis on consumers and cost effectiveness (Harden 1992), the regulator made progress in introducing a more cost-effective service in terms of a much tougher price-cap which required serious efforts from BG in relation to cutting costs. He also introduced new service standard requirements, in which BG had to report levels of achievement. Additionally, he made significant inroads into introducing competition to the industrial and commercial market, firstly by forcing an MMC inquiry in 1988 into BG's discriminatory pricing practices, and subsequently by an OFT inquiry in 1991 when these measures did not result in significantly increased competition. In terms of the domestic consumer market, BG retained its monopoly position and shareholders continued to benefit considerably from this as well.

Competition culture

While the Gas Act of 1986 instituted a new social and political process of accountability in the setting up of OFGAS, the Gas Act of 1995 added a new element to the language of accountability when it provided the new regulator, Clare Spottiswoode, with additional powers, particularly in relation to the introduction of domestic competition. New principles emphasizing market forces and freedom of choice in the market were emergent. Given the considerable authority which the regulator had, it is important to consider the accountability process whereby she was held answerable for the consequences of the far-reaching decisions she was empowered to make.

A notable development in the area of accountability was a commitment on the part of Clare Spottiswoode to more consultation and transparency in the regulatory process. Consultation documents were produced on all major issues, seeking views from a wide variety of contributors. A senior officer in BG Regulatory Affairs pointed out that being unaccountable has disadvantages as well as advantages:

Accountability has two sides to it. The noise made by regulated companies and politicians is that regulators have undue discretion but don't have to explain themselves to anyone. We had a situation where a change of regulator caused some changes in policy. It was a different personality taking a different interpretation of the same situation, so it was a bit unstable. The other side of accountability has begun to worry the regulators – what are they actually accountable for? ... I think regulators are now finding it's fine to take wide powers against an incumbent monopolist, but once you start regulating competition in that industry it's a much more complex thing because you have many more players and the question of equity between different players comes into effect.

Another area of concern was the extent to which the regulator could choose to prioritize the duties imposed upon her by the Gas Act. According to a regulatory consultant:

If you read the Acts the number of primary and secondary duties appear very comprehensive. If you look at the documents coming out of OFGAS now, you will see that they centre on one duty only, and that is the promotion of competition.

The view that the regulator was mainly concerned with competition issues was echoed by the concern of the Gas Consumers Council to maintain its independence from OFGAS, since it believed that decisions made in the interests of competition would not always be in the best interests of consumers:

As soon as competition was clearly coming and they had to look at it all again and find out where those costs were and reduce numbers of

people, some of that public service ethic inevitably drifted away. They're now saying they're a business like any other. (Senior official at GCC)

The GCC fought successfully against the prospect of becoming a part of OFGAS. This independent representation was unique to the gas industry, as other utilities had consumer or customer committees whose chairmen were appointed by the regulator.

Many of the problems of accountability identified in relation to inappropriate informal intervention by Ministers in nationalized industry operations were echoed in the problems encountered post-privatization and it can be argued that the ensuing conflicts in both cases eventually resulted in a crisis situation leading to a decision to effect radical change in the industry. Such change occurred when BG was privatized in 1986 and again in 1997 when British Gas was de-merged into two companies, BG and Centrica, separating the natural monopoly transportation element of the business from the potentially competitive supply elements.

The events which eventually led to this radical change further illustrate the ongoing problems in political accountability experienced in the privatized gas industry. A new MMC inquiry (1993) found that BG's operation of an integrated business and its operation of the tariff formula might be expected to operate against the public interest.

Accordingly, the MMC recommended that BG be required to divest itself of its trading business by 31 March 1997 and that the domestic market formula be relaxed from RPI-5 to RPI-4, with eventual removal of the domestic monopoly some 3 to 5 years later. In December 1993, the President of the Board of Trade, Michael Heseltine, decided that BG should only be required to create an internal separation of transportation and trading rather than divest itself of the trading business. This decision was contrary to the MMC recommendations, and demonstrates that domination by political interests did not disappear.

In relation to moral accountability, considerable debate surrounded the extent to which other suppliers would have to share the obligations currently shouldered by BG in relation to the rights of the disabled, elderly and less well-off, and the extent to which any obligations could be enforced, illustrating the potential conflict between issues of public interest and a competitive market. According to a regulatory consultant:

I have no doubt that when you replace a statutory obligation with a contractual obligation to supply, many people will end up with only offers to supply at prices at which they are unable to demand it and deterioration in service will be a fact of life. If you're one of the people in the Gas Care scheme (for elderly and disabled), which costs £90 million per annum, you won't be taken on. It's all very well saying the incumbent will inherit everyone except those who are cherry-picked by new entrants, but eventually the position of the incumbent becomes unbearable because he just has the people no-one else wants.

The OFGAS consultation documents (1995a, b, c) demonstrated that regulation now meant a very close involvement of the regulator in the running of the regulated company's business, to the extent of exerting control over the movement of staff between different parts of the business, and regulating communication between individuals in the business. Given that some of the major contributors of comments to the consultation documents were BG's competitors, it was also clear that they could have had a considerable say in the future operation of BG.

The existence of conflict between streamlining the business and providing a high standard of service led to one, presumably unintended, consequence of so much change – BG's reputation plummeted. More than 25 000 people were made redundant over a 3-year period and several major reorganizations were implemented, meaning that a great deal of time had to be spent by the remaining employees on reorganizing rather than focusing on the customer. In addition, many people had to cope with learning new jobs, and taking on expanded responsibilities as a result of the reduction in staff numbers. Some changes took place with the objective of creating a more competitively focused organization, which meant that some non-commercial activities had to cease. Some of these activities were very important to consumers as part of public service provision. All of these factors contributed to a large rise in the level of complaints about BG's standards of service. Previously the business was run as an integrated business because it was believed that this was the way to provide an efficient and effective public service. Customers could have one point of contact for all their queries. Breaking up the business meant that this approach was no longer possible. In some cases staff knew that a particular matter was no longer their responsibility, but because of the pace of change, they did not know to whom they should refer the customer. According to official reports of the Gas Consumers Council, when BG won its Chartermark in 1993, complaints for that year were 20 428, the lowest annual total since 1988. During the first 8 months of 1995, 30 718 complaints were received by the GCC, leading to a review by the Minister of Public Services and the subsequent forfeiture of the Chartermark in December 1995.

The foregoing illustrates the conflict which exists between a utility's obligation, in the minds of most people, to provide a public service, and the new ethos of competition which BG was being required to adopt. Slimming down the organization and restructuring were necessary to survive in the new competitive environment which had already arrived in the contract market and was soon to arrive in the domestic market. However, it was difficult for many people to reconcile themselves to the loss of certain aspects of service, many of which it had been non-commercial to provide. Of course, some of the reductions in service standards could justifiably be argued to relate to poor management of the change process, and this made it easier for the regulator to legitimate the changes by blaming all the problems on poor management. Nevertheless the speed of change which was

forced on the organization was a problem, and the poorer standards of service illustrate the conflict between the regulator's ostensible objective of acting in the public interest and the adverse effect of regulatory control on that interest.

Another problem for management was in relation to conflicting accountabilities to regulator and shareholders. The increasing power of the regulator effectively eroded the power of shareholders as stronger regulation and the uncertainty engendered by so much change eroded the value of investments. Thus we see the principles of the commercial culture, of shareholder value and profitability, superseded by new values based on a belief in competition and customer choice in free markets, informing and changing accountability relationships, and we then see that the change is not unproblematic.

ANALYSIS OF THE CHANGES IN EXTERNAL ACCOUNTING IN THE GAS INDUSTRY USING THE THREE CULTURES FRAMEWORK

Accounting information is clearly an important tool which gives visibility to the activities of an organization, and which can help enforce accountability. At least as important, however, is the recognition of accounting as a situated political practice, fulfilling an important role as a technology of social and organizational control, and having the ability not only to reflect, but also to constitute reality.

The 'New Public Management' (NPM) literature is a valuable source of studies concerning the importance of accounting in changing organizational contexts, and of relevance to this study, given its consideration of an industry which moved from a public sector nationalized industry to a new privatized status. The importing of private sector accounting practices into the public sector was in part a consequence of New Right political thinking, and was indicative of an attempt to render visible new aspects of public sector service provision and to emphasize new values. Attempts to quantify performance mean that accounting had a central role as a control mechanism in the public sector reforms which took place and several authors have considered the effect of this in a variety of organizational contexts.

Miller and Rose (1990) recognize the importance of accounting in enabling change at the macro level of society as a whole, discussing the importance of regulatory mechanisms in enabling 'government at a distance', in particular the use by government of a range of 'technologies', the complex mechanisms through which it becomes possible to link calculations at one place with action at another. Humphrey *et al.* (1993) draw on these insights in discussing the rise of 'accountable management' in the public sector. They emphasize the usefulness of accounting-based technologies in such initiatives, with their potential for extending discretion and choice for individuals, while still ensuring that actions are taken in accordance with the broader economic, financial and social objectives of government.

The theme of doubting the efficacy of private sector accounting practices for the public sector is recurrent in much of the NPM literature (Carter 1989, 1990; Humphrey and Pease 1991; Pollitt 1986, 1990; Hood 1991). These authors suggest that the dominance of financial and economic measures may render other discourse less visible, and suggest that wider issues such as quality of service and equity in its provision are likely to suffer as a result. In the water industry, Ogden (1994, 1995, 1997) argues that privatization has meant a new focus on profitability and shareholder value. Ogden (1995) discusses these changes in relation to the water industry in terms of the emergence first of 'a vocabulary of costs' and subsequently of 'a vocabulary of profits'. Accounting helped to transform the corporate culture from one based on engineering and operating demands to one based on business priorities and customer needs.

This study highlights the significance of the context within which accounting operates, and the role of accounting as a force for enabling major change to take place within organizations. The consultation process developed by OFGAS required a great deal of information from BG, much of it financial in nature. The changing role of accounting information in the regulatory regimes of the public service, commercial and competition cultures will be discussed below, examining first the changing external reporting requirements and content of published accounts and, second, changes in financial controls in each of the three cultures.

Public service culture

Looking firstly at external financial reporting, the requirement to produce an annual report and accounts was included in the enabling legislation for each nationalized industry. The reporting requirements were largely in accordance with those imposed on large private sector companies, that is, the accounts had to show a true and fair view. There was also usually a provision for ministerial direction on the form and content of the report and accounts. The 1978 White Paper, which addressed among other things financial targets and controls, had stated that financial targets would be set on the basis of current cost accounting (CCA) figures. In 1981, British Gas, along with the other nationalized industries, began producing CCA accounts in accordance with SSAP 16, as modified by a ministerial policy statement issued by the Chief Secretary of the Treasury and by the 'Code of Practice for Current Cost Accounting in the Public Sector Corporations', issued by the finance panel of the Nationalised Industries' Chairmen's Group in January 1981. British Gas adopted CCA accounts as its main accounts, and continued with this practice until 1997, despite the fact that SSAP 16 was made non-mandatory in 1985. On the subject of published financial information, a senior member of the Treasury Department, said:

For a nationalised industry, readers of accounts were primarily Parliamentarians. ... Price Waterhouse now have to answer to the Stock Exchange if accounts are unsatisfactory. Previously, the accounts were a

matter for British Gas, Price Waterhouse, the Department of Trade and Industry and the Department of Energy – more incestuous.

Accountants in the nationalized industry did not feel a great deal of pressure in relation to the provision of external financial information:

Pre-privatization, all we had to do was to produce annual financial accounts and submit them to the Department of Energy. It was a relaxed timetable, and there were no Stock Exchange or shareholder pressures. (Senior Group Finance Official)

Industry Chairmen were concerned to retain as much autonomy as possible, and accounting matters were an important feature of discussions for the Nationalised Industries' Chairmen's Group, as referred to above. Given that the chairmen were engineers, one could expect some resistance to increased financial accountability, and there was clearly still room for discretion where legislation was vague. Puxty (1997) provides an interesting analysis of the use of CCA in the accounts of British Gas, in which he asserts that the decision to retain current cost reporting for the main published accounts after it had been made non-mandatory was a legitimization device used by management to report lower profits, in the face of a public outcry against high profits, partly resulting from a government directive to increase prices to bring them more into line with those of electricity.

Turning now to financial control, three White Papers were issued in 1961, 1967 and 1978 in relation to financial requirements for nationalized industries. It is clear that the White Papers tried to deal with the problems of accountability and control of the nationalized industries by focusing mainly on the implementation of stricter financial controls over investment appraisal, thus emphasizing the importance of accounting information. Despite these efforts to introduce stricter investment criteria, financial pressure was still not strong and engineering considerations took precedence over financial ones according to some interviewees:

They used to make five year plans. When it was a monopoly, the five year plan was to keep everything the same. The whole approach to investment – put a pipe in the ground – there'd be no payback for twenty years, but it didn't matter. (Personnel Executive)

Decisions were essentially engineering, rather than financial, in the first instance. (Finance Executive, Treasury Department)

From 1976, a cash limit was set annually for each nationalized industry's external financing requirements (NEDO 1976), termed an external financing limit (EFL). The sources of finance included fixed interest loans, public dividend capital and leasing. Many members of senior BG management believed that the efforts to impose financial targets on the industry had been effective, as reflected in the comments of some:

We'd already moved to EFLs and targets and more commercial disciplines. Financial performance had improved because of government targets. (Finance Executive, former Regional Chief Accountant)

BG saw itself as a good company, a disciplined, cost-conscious company. It was a good nationalised industry. (Finance Executive)

Before the privatization of British Gas the public service culture dominated the activities of the organization and the thinking of its managers. Although successive governments from 1951 onwards had sought to improve the efficiency of British Gas through exhortations to sound economic principles and incentives to keep within cash limits and achieve target rates of return, nevertheless the primary focus of management was the provision of a (near-) universal gas service to the whole country at a reasonable cost. Thus investment and planning decisions were largely driven by the need to increase output and ensure the highest standards of safety. This gave power and authority to the engineers rather than those responsible for marketing (including pricing) and customer relations. As a consequence, a public service ethos had to struggle to be visible within a stronger public sector climate.

Commercial culture

The original regulatory external financial reporting requirements for the privatized BG were specified in Condition 2 of its Licence. BG was required to prepare and have audited separate accounts for the gas supply business, consisting of a profit and loss account and a statement of assets and liabilities, excluding taxation and any capital liabilities and interest not relating solely to the gas supply business. It was also required to produce an interim profit and loss account. As far as possible, the regulatory accounts were to be prepared using the same format, principles and policies as the annual accounts. Although these reporting requirements do not seem too onerous, the DG of OFGAS had the power to request additional information necessary to perform his or her functions under the Gas Act. Such power meant that a regulated industry could find itself facing huge demands for accounting information, with no onus on the regulator to justify these demands.

With privatization, and early attempts by the regulator to introduce competition to the industrial market, there arose a need to identify separately the costs of the transportation and supply elements of the business. In the nationalized industry this had not been a priority – the main emphasis was on the *overall* cost of service provision, and cross-subsidization of business activities was common. Segmental reporting became important, since it enabled the regulator to separately identify the profitability of unregulated and regulated elements of the business, and to ensure that cross-subsidization had not taken place. Cost allocations were required, however, which were inevitably arbitrary in many instances and, according to Vass

(1992): '... likely to be determined more by competition policy of regulators than by traditional accounting' (p. 312).

Although the regulator was provided with information on allocations and apportionments, there were no doubt many instances where subjective judgement was exercised in choosing suitable bases. Additionally, this was an area which afforded the regulator opportunities to pursue his or her own objectives because he or she could disclose decisions without providing this underlying information since it was subject to commercial confidentiality.

Unlike some other privatized industries, BG retained its nationalized industry practice of reporting financial results on a current cost basis, ostensibly because it considered current cost accounting (CCA) the most appropriate for a capital intensive industry with long-lived assets. The suspicion with which BG's adherence to CCA was viewed is well-illustrated by an editorial from the *Daily Telegraph* (10 June 1986) discussing the fact that BG's accounts, subsequent to privatization, would provide supplementary historic cost accounting (HCA) information in addition to the main published CCA accounts:

Next month the 1985–6 results will reveal, for the first time, just how profitable British Gas really is. The figures will be calculated on the basis of accounting used by everyone else, not the funny money Sir Denis has favoured in the past.

It is interesting to reflect here on how CCA accounting was used by BG to constitute a particular reality, which was at odds with the financial reality of almost every other organization in the UK – even after privatization, HCA information remained as supplementary information, while the main accounts continued to provide CCA information. In a capital intensive industry such as BG, the CCA depreciation adjustment is very large and the ability to manipulate this figure, based as it is on subjective asset revaluations, could be useful to management in trying to legitimize arguments for a less onerous price-cap by portraying low CCA profits since the size of the CCA depreciation figure impacts directly on reported CCA profit. On the other hand, HCA profits, the main interest of the financial markets, remain unaffected.

In identifying an appropriate rate of return for the network, the regulator has to attempt to identify the cost of capital of that aspect of the business. The value attached to fixed assets, a major element of capital employed, will obviously have a strong impact on rate of return calculations. Although regulation of the RPI-X form was meant to avoid the problems of rate of return regulation, it is clear that regulators have subsequently recognized the importance of this measure, and indeed the 1993 MMC Report recommended rates of return of between 4 and 4.5 per cent on existing assets, and between 6.5 and 7.5 per cent on new assets. Opportunities are afforded by CCA for revaluation of fixed assets, using appropriate indices, once again possibly providing scope for influencing regulatory decision-making.

Upward revaluations of fixed assets would also increase current cost depreciation in future years, thereby reducing the numerator in the rate of return calculation as well as increasing the denominator.

The commercial culture was characterized by a concern to demonstrate efficiency in terms of financial performance. The focus was on the 'vocabulary of profits', the language of investors and the stock market to reflect the high priority now given to shareholders. Nevertheless, there was a tension between the need to provide relevant information to the stock market and the desire to plan for the very long term, a reflection of the previous public service culture. This tension manifested itself in the dual sets of financial statements prepared by the company, one under historical cost accounting (HCA) conventions and the other under current cost accounting (CCA). An alternative explanation for the retention of CCA alongside HCA was the intention to 'fool' the regulator into thinking that profits were low (Carey *et al.* 1994). This might encourage the regulator not to tighten the price formula. However, since the regulator was able to 'see through' the CCA accounts, their continued publication probably reflects the transition between the public service culture of pre-privatization days and the final competition culture.

Competition culture

OFGAS carried out two price formula reviews in 1997, one for Transco and one for the rest of the plc. Transco had been regulated by a separate price formula from the rest of the organization since October 1994, following a recommendation by the MMC. The MMC did not set a value for X, but left this to OFGAS, who duly came up with a formula of RPI-5, to run until March 1997.

Emphasis on unbundling of activities to ensure competition wherever possible meant that the costs of operating the different parts of the business had to be identified. The need to 'understand our costs' was referred to by many interviewees, who all emphasized that this had not been a priority when they were running an integrated business. One outcome of regulatory information requirements was the adoption of activity based costing (ABC) to enable provision of information about different parts of the business, superseding the previous reliance on allocations and apportionments. The recognition of the value of ABC for running the business led to the decision to implement it throughout BG, and its use in relation to internal accounting issues will be discussed in more detail in a subsequent paper.

Several important issues were raised as a result of the Transco price formula review. A prior consultation document (OFGAS 1995d) indicated the regulator's intention to focus on, among other things, a detailed examination of Transco's operating costs, cost of capital and asset valuation. She stated that she would require forecast information on Transco's expected capital and operating expenditure for the next 25 years, based on a range of scenarios. The information would be subject to efficiency studies, including

consideration of whether anticipated technological developments would extend the life of assets and reduce their replacement cost in the future, as well as consideration of how actual expenditure since 1992 compared with that claimed as necessary by BG at the time. Consideration was also given to whether a cash basis of regulation would be more appropriate than the existing method whereby depreciation was included in the cost base when setting the price formula:

The regulated company may receive at least three types of benefit from depreciation being included in its cost base when depreciation is in excess of capital expenditure. First, depreciation itself makes no allowance for the interest benefit from receiving income in advance of expenditure. Second, technical progress will probably have ensured that, when eventually replaced, the asset will cost less than implied by current cost depreciation which has been computed on an indexed or modern equivalent asset basis. Third, accounting lives of assets will be 'prudent' and there is a high probability that the assets will, in fact, last longer, thus magnifying the first two effects ... (p. 26)

Barclays de Zoete Wedd (BZW) (1995) pointed out that at that time Transco's expenditure on replacing the pipeline network was running at less than a quarter of current cost depreciation, meaning that under the existing price control the business was hugely cash positive, potentially implying an appropriate formula of RPI-11 instead of RPI-5. In theory, Transco should have been building up cash reserves for use when the bulk of the pipeline network became due for replacement around the year 2010, but OFGAS was concerned that excess cash could instead be distributed to shareholders.

The regulator also expressed her intention to consider whether the risks facing Transco alone might be lower than those of the plc as a whole, thus justifying a lower cost of capital than that suggested by the MMC. She said that she would also consider the possibility of modifying the form of the price control, either to reduce the time period for which it was set or to incorporate some explicit risk-sharing between customers and shareholders. In the latter regard, consideration was being given to 'sliding-scale regulation', used in the gas industry in the late nineteenth and early twentieth century.

The foregoing provides clear evidence of extremely detailed involvement of the regulator in the financial affairs of the business. Detailed consideration of financial issues such as bases of asset valuation, operating costs, cost of capital and depreciation policy certainly provided new visibility to many aspects of organizational activity. The regulator used accounting to help initiate a new shared understanding of organizational purpose, emphasizing competition and free market principles, legitimated by an appeal to the superiority of market forces in providing the best deal for the customer, and drawing on the power provided to her in the Gas Acts to demand information on all aspects of the business. The contrast between

the content of the regulatory accounts, prescribed by statute, and the information demanded by the regulator on an *ad hoc* basis was enormous. In addition, she did not restrict herself to basing decisions on historic information, but predicted the likely impact of future technological developments on the costs of running the business in years to come, and adjusted Transco's allowable costs accordingly. The frustration felt by management is illustrated by a comment from a PGS Finance Executive:

It's become clear in the tariff formula negotiations that they're expecting too much. Their requirements for information are substantial, and are diverting key resources. The last thing we need is to have to spend a lot of time satisfying information requests for the regulator. Theoretical economists say, 'What is the marginal cost of an extra 100,000 customers?' Absolutely irrelevant to BG now – we're about to lose hundreds of thousands of customers.

The language of accounting had clearly come to dominate the language of engineering, and the fact that management now had to reveal so much information clearly reduced their ability to exert control. The burden of providing regulatory information was enormous, and the power of the regulator in demanding such information seemed limitless. As a technology of social and organizational control, accounting was employed as a powerful weapon. The information demands and interviewee comments discussed above relate to a time period prior to BG's decision to de-merge the business. It seems highly likely that recognition of the power of accounting to provide transparency of operations contributed to the decision to undertake such a radical restructuring since there was little advantage to be gained by remaining integrated, and indeed the cost in time and money of having to provide so much information was detracting from management's ability to run the business.

CONCLUSION

This paper has examined the consequences of regulation for organizational and accounting change in privatized industries by means of a case study of the gas industry. It has particularly focused on issues of accountability and the role of accounting information, both important aspects of management control. The privatization initiative has been explained in the context of the wider organizational change that took place in the public sector in the 1980s and early 1990s. The study extends Stewart and Ranson's (1988) discussion of the distinctive conditions applicable to public and private sector organizations by identifying an important interim phase in relation to privatized industries, where public service obligations coexist to varying degrees with private sector objectives. The extension of their framework of public and private sector models to include a new 'commercial' model provides the basis for the development of an analytical framework encompassing the three cultures of public service, commercial and compe-

tition which is used to understand organizational change in the gas industry.

Three aspects of political, managerial and moral accountability (Day and Klein 1987) were examined in each of the three cultures. Problems in relation to political accountability were identified as key factors in organizational change which led to the privatization of the nationalized gas industry. Ongoing difficulties in political accountability were revealed in the discussion of the role of the regulator, an unelected figure with wide-ranging powers. Issues of managerial accountability were also highlighted, as management had to deal with ever-increasing demands from the regulator, as well as trying to reconcile conflicting accountabilities to both the regulator and shareholders. Difficulties in moral accountability were also shown to exist, as the relative merits of competition versus universal service were debated, and the regulator's freedom to prioritize certain regulatory objectives was discussed.

The role of accounting in enabling organizational change was examined, with emphasis placed on the significance of the context within which accounting operates, and its constitutive role in relation to organizational change. External financial reporting requirements and the content of published accounts were discussed, as well as the different financial controls experienced in the three cultures. The power of accounting to constitute a particular reality was demonstrated in the discussion of BG's use of current cost accounting, and the priority of engineering over financial considerations in the nationalized gas industry was also discussed. The limited success of government's efforts to impose greater financial discipline on nationalized industries was identified as an important reason for the decision to privatize. Accounting information was shown to have taken on a crucial role in relation to organizational change after privatization, enabling a new language of accountability by giving new visibility to organizational activities as the regulator exerted increasing pressure on the organization to provide more and more financial information. It is argued that the power of accounting to effect radical organizational change is evident in BG's eventual decision to de-merge into two separate companies.

This study has contributed to the literature on management control and organizational change by providing a contextual study of accountability issues and the role of accounting information in the regulation of the gas industry. The three cultures framework could equally well be applied to an analysis of organizational change in other privatized utilities, whose distinctive features are likely to mean that the rate at which they progress towards the competition culture, and the difficulties they face, will vary. A comparative study of the regulatory processes in two or more privatized industries would also be useful, particularly given that there are important implications for regulation and regulatory structures in the move towards provision of multiple utility services by one organization.

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LOCAL GOVERNMENT POLICY EVOLUTION IN NEW ZEALAND: RADICAL REFORM AND THE *EX POST* EMERGENCE OF CONSENSUS OR RIVAL ADVOCACY COALITIONS

JOE WALLIS AND BRIAN DOLLERY

Between 1984 and 1993 New Zealand reformers followed a top-down strategy designed to minimize the opportunity for resisters to affect the reform process and preclude the *ex post* emergence of a stable alignment of rival advocacy coalitions. The evolution of the local government policy debate since the implementation of radical reform in 1989 suggests that these strategic goals may be more difficult to achieve than at first thought. The quest to make local government more efficient and democratic by making it more accountable has given way to a 'minimalist-activist' controversy over the comparative institutional advantage of local authorities and the role of trust in their relations with central government that has the potential to contribute to the eclipse of the post-reform consensus and the emergence of a 'advocacy coalition structure'.

INTRODUCTION

Since the passage of legislation that radically reshaped the structure and management of central and local government in New Zealand, the 'New Zealand model' of public sector reform has attracted considerable international interest. It has been 'showcased' at international conferences, studied in detail by delegations sent to New Zealand by 'dozens of countries' while the architects of the reforms have 'crisscrossed the globe' extolling its 'virtues and portability' (Schick 1998, p. 123). The interest and sales efforts have not, however, just been directed towards the New Zealand model of public management. They have also been directed towards the strategy the reformers used to implement these reforms. Table 1 sets out the staged approach to consensus-building that characterized this strategy.

In general, this strategy sought to ensure that particular reform initiatives sustained and strengthened the coherence of policy development at both the system-wide and subsystem levels. At the agenda-setting and policy formulation stage, a narrow consensus on the 'policy paradigm' that was to be applied in developing and screening the stream of neo-liberal reform initiatives undertaken by successive Labour and National administrations between 1984 and 1993 was sustained within a elite reformist network. This

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TABLE 1 *The New Zealand model of consensus-building*

Stage of policy cycle	Type of consensus sought
1. Agenda-setting and policy formulation	Narrow consensus within network of key technopols and technocrats concerning the system-wide direction of the reform process
2. Decision-making and implementation	Narrow consensus within group of change agents concerning the subsystem implementation of reform
3. Evaluation and reformulation	Broad post-reform consensus about the core policy objectives of the subsystem

comprised 'technopols' in both Cabinets and 'technocrats' in the key control agencies. Williamson (1994) defined 'technocrats' as those who advocate the organization and management of a country's industrial resources by technical experts for the good of the whole community and 'technopols' as technocrats who have assumed a position of political responsibility. Key 'technopols' in New Zealand during this period were Roger Douglas, Labour's Minister of Finance from 1984 to 1988, his Associate Ministers, David Caygill and Richard Prebble, and Ruth Richardson, National's Minister of Finance from 1990 to 1993. The agencies involved included the New Zealand Treasury, the Reserve Bank and the State Services Commission and the influential 'Business Roundtable', a self-selected lobby group that includes in its membership (which is by invitation only) the chief executives of some of New Zealand's largest companies (Kelsey 1995; Easton 1997; Wallis 1999). The policy paradigm they applied was constructed from a number of economic theories (public choice, agency theory, the new institutional economics and 'new classical macroeconomics') that tended to highlight problems of government failure. Its imposition was facilitated by a 1985 overhaul of the machinery through which Cabinet received policy advice. This saw a Cabinet Policy Committee being established with the task of ensuring the clarity and coherence of all policy. Since this structure was serviced by the Treasury, this control agency could perform a 'gate-keeper function', screening policy proposals according to whether or not they were consistent with the 'government failure' paradigm. In general it sought to encourage bold, radical initiatives within particular policy sub-systems (Easton 1997, p. 99) provided that they did not impair the coherence of the system-wide reform process.

Once reform proposals had passed Treasury scrutiny and secured Cabinet approval, 'blitzkrieg' tactics were typically used during the second stage of decision-making and implementation to drive them through the various 'veto points' at caucus and parliamentary level and radical restructure the institutions that were to be involved in their implementation. According to Easton (1994; p. 215) 'the lightning strike involved a policy goal radically different from the existing configuration, to be attained in a short period, following a surprise announcement and a very rapid implementation'. No

attempt was made to deepen and broaden the consensus beyond the Cabinet minister and 'change agents' selected to advance the legislation and implementation process since, in the view of the reformers, this would simply give opponents the opportunity to mobilize resistance and slow down, or perhaps stall, the reform process. They anticipated that this resistance would subside once the reforms were implemented. Roger Douglas, the Finance Minister between 1984 and 1988, has been particularly candid in this regard. He disputes the conventional view that 'consensus support for reform must exist before you start', arguing, instead, that 'consensus among interest groups on quality decisions rarely, if ever, arises before they are made and implemented. It develops after they are taken, as the decisions deliver satisfactory results to the public' (1993, p. 218). In his view, 'speed is essential. It is almost impossible to go too fast. ... Vested interests seeking to preserve past privileges will always argue strongly for a slower pace of change. It gives them more time to mobilise public opinion against the reforms' (p. 223).

The effectiveness of this strategy should not, however, be assessed only in terms of its capacity to effect rapid and significant change but also according to the nature of the consensus that emerges during the third stage of evaluation and policy reformulation that follows the radical structural reform. It seems that the New Zealand reformers were looking to use a radical reform process to reconcile potentially conflicting policy values that might be held by participants in the policy subsystem so that a new consensus could be established on its core objective. This would then ensure that policy could develop in a coherent manner as the participants in the subsystem concerned sought to evaluate and reformulate the reform according to the degree to which it realized this objective. For example, after the Reserve Bank Act of 1989, monetary policy in New Zealand has been consistently evaluated in terms of its capacity to deliver 'price level stability'.

The extensive literature on 'policy networks' that bring together, at the sub-governmental level, those societal and state actors who have sufficient technical knowledge to provide informed comment on policy formulation, implementation and evaluation can provide some useful tools for evaluating the effectiveness of a New Zealand-style reform strategy on its own terms. This has been usefully summarized by Rhodes (1988), Considine (1994) and Howlett and Ramesh (1995). Two strands of this literature are particularly salient.

In the first place, let us take case studies based on the 'Rhodes model'. This model treats 'policy networks' as a generic term that encompasses a continuum of types, ranging from the stable, highly integrated, vertically interdependent and exclusive 'policy community' to the more open and unstable type of 'issue network' studied by Heclo (1978). On the effectiveness of policy initiatives by the Thatcher government in the areas of economic policy, industrial relations, local government finance, housing, social security, health, environment and agriculture and the European Com-

munity studies based on this model found that 'despite the Government's expressed desire to centralize power and authority and particularly to reduce the role of interest groups, it is the continued existence and power of policy networks which has acted as the greatest constraint on the development and implementation of radical policy' (Marsh and Rhodes 1992, p. 185). In New Zealand, the reformers have sought to overcome this constraint by using legislative *blitzkreigs* to disaggregate and restructure the government organizations around which established policy communities tended to form and by placing trusted 'change agents' in executive positions in the new institutions which emerged from this restructuring process (Kelsey 1995; Wallis 1999). However, even where they managed to break up, penetrate, reconfigure and wrest the reins of policy leadership in particular areas from previously insulated policy communities, the reformers might still fail to establish a post-reform consensus about core objectives within reconstructed communities.

A second important strand of the policy network literature suggests that a subsystem consensus may break down with the emergence of a stable line-up of opposing advocacy coalitions (Sabatier 1988). Jenkins-Smith and Sabatier (1993, pp. 179–80) propose that for this to occur the following conditions should be met: (i) the participants in a policy subsystem should come to have a hierarchy of beliefs reflected in their unwillingness to revise 'policy core' as distinct from 'secondary' beliefs in response to new information; (ii) advocacy coalitions should come to be identifiable by the 'policy core beliefs' which their members share in common; (iii) the main controversies in a policy subsystem should involve disputes about the core beliefs of opposing coalitions; and (iv) these disputes should typically not be capable of uncontested resolution through scientific methods or according to the standards of independent professional forums but should tend to be perpetuated as each side buttresses its position by using substantive policy information in an advocacy fashion. It should be clear that for these conditions to be met after a radical reform, the participants in a policy subsystem should be fundamentally divided about the core objectives according to which they are to evaluate the consequences of the reform.

The main purpose of this paper is to consider the extent to which this situation may have been developing in the policy subsystem surrounding local government in the decade following the watershed passage of the Local Government Amendment Act of 1989 (hereafter referred to as the 1989 Act). This focus on local government reform in New Zealand may be surprising. New Zealand is a small, geographically isolated country, similar in size to Japan or the British Isles, with a population of some 3.4 million that is concentrated in the three urban areas of Auckland (900 000), Wellington (327 000) and Christchurch (313 000) and over 20 urban areas with populations exceeding 20 000. Although, for a country of its size, New Zealand has historically had a lot of local government (with over 700 authorities existing before the 1989 reforms), by comparison with the United Kingdom

and most of the OECD area, the functions of local government have been very limited. This is reflected in the fact that its local authorities have never had primary responsibility for health services, income redistribution, justice, police or education, nor have they ever been given the power of 'general competence'. While the reforms undertaken in its central government in the late 1980s have attracted a great deal of attention, there has been much less interest in the local government reforms undertaken. This probably reflects the view that the Local Government Act of 1989 simply extended the model of contractualist governance embodied in the State Sector Act of 1988 and the Public Finance Act of 1989 to the second tier of government (Boston 1996).

We, however, take the view that the policy developments that surrounded and followed New Zealand's local government reforms should be of significant interest in their own right. In the first place, the relative limited scope of, and resource commitment to, local government in New Zealand means that its local government reforms can be treated as solutions to problems specific to this subsystem. This makes it easier to draw lessons for local government policy from these reforms than in countries where the greater size and importance of local government means that reforms in this sector are directed toward system-wide fiscal and democratic imperatives. Perhaps more importantly, local government represents an area where New Zealand reformers succeeded in overcoming resistance to radical reform but were relatively less successful in establishing the conditions for a stable post-reform consensus.

The section that follows will examine how the reformers were able to exploit a unique window of opportunity to break the historical pattern of effective resistance to local government modernization in New Zealand. We will then look at how the reforms implemented through the 1989 Act were designed to establish the conditions for a post-reform consensus by reconciling the potential conflict between efficiency and democracy values by engaging the policy subsystem on a quest for greater accountability that was further advanced through the provisions of the 1996 Amendment to this Act. The penultimate section explains how areas of incoherence in the concept of government failure held by the reforming coalition contributed to the emergence of divergent minimalist and activist perspectives on the comparative institutional advantage of local government that have eroded the post-reform consensus. We conclude by considering the extent to which an advocacy coalition framework is emerging in the local government policy subsystem and the overall usefulness of this framework for assessing the effectiveness of New Zealand-style reform strategies.

OVERCOMING RESISTANCE TO THE RADICAL REFORM OF LOCAL GOVERNMENT

From 1876 (when the two tier, central-local government structure was established in New Zealand) until 1989, local government was allowed to

develop in a way that perpetuated its institutional weaknesses. The proliferation of small authorities and the *ad hoc* formation of special authorities meant that 'the more authorities there were, the more their overlapping functional boundaries were a recipe for weakness and the stronger central government became' (Bassett 1996, p. 30). The issue of amalgamation did, from time to time, rise to prominence on the policy agenda but supporters of the *status quo* were invariably able to mount sufficient resistance to block this first step to modernizing this level of government. This resistance was effective not just because it reflected the pressures of local parochialism but also because 'the functions of local government were so limited relative to central government that there was little to be gained from a more rational structure' (Easton 1997, p. 187). Thus, despite the emergence of reasonably broad bi-partisan support for local government amalgamation following the formation of the Local Government Commission (LGC) in 1946, neither major political party was prepared to take the risk of pushing through this reform.

This situation changed with the election of a reformist Labour government in 1984. Amalgamation not only featured in its election manifesto but also appeared to be the 'pet' reform initiative of Michael Bassett, its Minister of Local Government, and Brian Elwood who was appointed in 1985 to chair the LGC. Both Bassett and Elwood had a background in local politics and soon exhibited the qualities of 'policy entrepreneurship' that, according to Kingdon (1984), can occasionally play a decisive role in effecting significant policy change. Kingdon in fact considers that policy entrepreneurs perform the function of 'coupling' solutions, problems and politicians together at the time when policy windows open. As 'brokers' they seek to build support within key committees in favour of proposals. As 'advocates' they must have their pet proposals or concerns ready to be pushed when the opportunity arises. They may spend years 'lying in wait' for such propitious moments to arrive. During this time they will ensure that their pet problems, solutions and theories survive in conflict and competition with alternatives, and that the policy-making community is 'softened up' to a state of receptivity to them.

During the 1985-87 period, Bassett and Elwood worked closely together to refine their amalgamation proposals. The Minister gave Elwood a free rein to soften-up the local government policy community through a carefully staged consultation process. He contacted councillors from every local authority to engage them in the process of reviewing their boundaries, functions, powers and relationships. By making clear to respondents that 'no change was not going to be an acceptable response' (Bassett 1996, p. 33), Elwood was able to 'flush out' those councillors whose resistance to reform could be anticipated and overcome as well as identify potential supporters who were willing to constructively contribute to proposals for change.

Meanwhile Bassett was able to 'couple' the issue of amalgamation to the broader issue of public sector management reform. This latter issue was

highlighted in Treasury briefing papers to the Labour government after it was re-elected in 1987. These recommended that public management reform be developed from a broad system-wide perspective derived primarily from agency theory and public choice that focused on 'the lack of management incentives' that lay at root of pervasive government failure rather than on 'the symptoms of dysfunctionality ... such as financial waste, excessive rules and poor performance' (Bale and Dale 1998). Cabinet consideration of these briefing papers gave Michael Bassett, the Minister of Local Government, the opportunity to point out those aspects of local government structure and management that were inconsistent with the model that the Treasury was seeking to apply to core government departments. In particular, the following weaknesses were identified:

- (a) the confusion between councillors and senior management about their roles;
- (b) a built-in bias towards inefficiency resulting from the absence of contestability in the provision of council services, most of which were provided 'in-house';
- (c) confusion between the commercial and non-commercial objectives in the management of council trading activities;
- (d) the lack of appropriate incentives and accountability arrangements to enable elected representatives to hold managers accountable for resource use; and
- (e) the diseconomies of scale – in resource use and recruitment of quality management – of too many small authorities (McKinlay 1994, p. 6).

Accordingly, when the Cabinet responded to the share market crash by introducing an urgent economic reform package in December 1987, Bassett succeeded in having a proposal to reform local government to address these problems included in this package.

Realizing that 'delay had defeated all previous attempts at reform' (Bassett 1996, p. 34), Bassett and Elwood adopted a number of tactics to 'fast track' local government reform after 1987. Firstly, they worked to a timetable that required the changes to be in place within the Labour government's second term since 'to let the reforms spill beyond another general election in 1990 risked turning restructuring into a national election issue' (p. 34). Secondly, as a result of the preparatory work done between 1985 and 1987, they now knew what they wanted to achieve and could afford to minimize the time available for further consultation. A Local Government Bill was drawn up and introduced in Parliament on 22 March 1988 which announced that new structures would be in place before local body election day on 14 October 1989 and gave the LGC sweeping powers to achieve this goal. This body could then proceed with its task of establishing new boundaries for local authorities while the officials working under Bassett could craft legislation specifying the principles under which these authorities were to be managed and made publicly accountable for their

decisions. The third tactic the reformers deployed thus involved the simultaneous formulation of proposals for legislative and structural changes. Bassett was thus able to push through the Local Government Amendment Bill specifying new management and accountability mechanisms on 23 May 1989, 15 days before he received from the LGC their proposed boundary changes that were to apply from the October elections.

For Bassett and Elwood, then, the reform process was like a military campaign in which speed, control of the commanding heights of the policy process and a refusal to be deflected from the achievement of clear objectives were of the essence. Such 'blitzkrieg' tactics have been severely criticized for their tendency to circumvent and undermine public trust in the democratic policy process in New Zealand (Kelsey 1995; Easton 1997). Both Bassett and Elwood appeared, however, to take the view that the ends justified the means if the reforms could be designed 'to balance democratization of process and the efficient and effective use of limited resources' (Elwood 1996, p. 312). The ways in which the reformers pursued this design goal and thereby established the conditions for an *ex post* decline in resistance and the emergence of a post-reform consensus must now be considered.

THE QUEST FOR GREATER ACCOUNTABILITY THROUGH LOCAL GOVERNMENT REFORM

The restructuring requirements of the 1989 Act

The 1989 Act set in motion a process of restructuring that rapidly and radically reshaped the territorial configuration and internal organization of local government in New Zealand. By using the tactics described in the previous section, Bassett and Elwood succeeded where their predecessors failed in rationalizing local government so that a structure emerged in which economies of scale could be realized that would enable regional councils (reduced in number from 22 to 13) and city and district councils (designated 'territorial authorities' and reduced in number from 200 to 74) to more effectively perform their separate but complementary functions. As Boston (1996) pointed out, in New Zealand regional councils and territorial authorities 'should be regarded as an entity ... rather than as two levels of sub-national government where one is subordinate to the other' (p. 184). The functions devolved to regional councils are largely regulatory in nature. Once these bodies had been established in their new form they could be vested with many of the environmental regulation functions set out in the Resource Management Act of 1991 as well as continuing to carry out functions set out in the Soil Conservation and Rivers Control Act of 1941.

Their functions under the 1991 Act have thus come to include:

- management of the effects of use of freshwater, coastal waters and land;
- biosecurity control of regional plant and animal pests;
- river management, flood control and mitigation of erosion;
- regional land transport planning and contracting of passenger services;

- harbour navigation and safety, marine pollution and oil spills; and
- regional civil defence preparedness.

By contrast, territorial authorities have a much broader mandate to contribute to the social, economic and infrastructure development of their communities. It is important to note that both types of local body are 'creatures of statute' (Bush 1995, p. 104). They have never been conferred 'a power of general competence' and, accordingly, can only exercise those powers and functions specifically provided in statute. The purposes of local government set out in the 1989 Act are nevertheless, quite broad. This section of the Act states that the purposes of local government are to provide:

- (a) recognition of the existence of different communities in New Zealand;
- (b) recognition of the identities and values of those communities;
- (c) definition and enforcement of appropriate rights within those communities;
- (d) scope for communities to make choices between different kinds of local public facilities and services;
- (e) for the operation of trading undertakings on a competitively neutral basis;
- (f) for the delivery of appropriate facilities and services on behalf of central government;
- (g) recognition of communities of interest;
- (h) for the efficient and effective exercise of the functions, duties, and powers of the components of local government;
- (i) for the effective participation of local persons in local government.

The terms are sufficiently broad to have enabled some territorial authorities to forge a more activist role in their communities during the last decade. As Boston (1996, p. 167) observes:

Despite the lack of a power of general competence, territorial authorities have, in practice, rarely been inhibited by the doctrine of *ultra vires* from undertaking functions. Rather, it has been the reluctance of either rate-payers or central government to provide finance that has been the limiting factor.

The internal structure of local authorities was also changed to ensure: (i) the separation of regulatory functions from other functions through the structuring of committees and the allocation of management responsibilities; (ii) the encouragement of corporatization through the transfer to 'Local Authority Trading Enterprises' (LATEs) of 'commercial' activities; and (iii) the concentration of administrative authority in the new post of chief executive (CE). The 1989 reforms sought to clarify the roles of the elected council on the one hand and the appointed CE on the other by decoupling the council from the day-to-day management of the authority and empowering the CE to perform a comprehensive range of implemen-

tation, advisory and management functions. Like their counterparts in central government departments, these CEs were appointed for fixed terms of up to five years, renewable for a further three years depending on performance criteria specified in the performance agreements they negotiated with their principals – the members of the elected councils.

Resistance to restructuring of this magnitude could only be expected to subside after it was undertaken if the reforms established the conditions for a post-reform consensus on the core objective according to which the reforms were to be evaluated. The completion of the restructuring process would then remove the *ex ante* uncertainty about the identity of winners and losers that Rodrik (1996) argues provides much of the political support for groups opposing structural reform. It would also reconfigure the policy networks surrounding local governments so that they could be closed as a channel for post-reform resistance. By this stage decision-makers in the restructured local authorities would be more reluctant to reverse the process since they would have already incurred the 'sunk costs' of complying with the reforming legislation. In addition, they may have begun to experience unforeseen benefits from reform such as the increased capacity for community governance that can arise from efforts to comply with the restructuring and managerial disciplines imposed by this legislation.

Bassett and Elwood appear to have appreciated that this anticipated decline in resistance may not have materialized if the restructuring had advanced the value of efficiency in local governance at the expense of the value of strengthening local democracy in the sense of making it more responsive to the preferences of local citizens. An advocacy coalition structure could then have emerged in which resistance to the ascendancy of an 'efficiency coalition' would have coalesced within a coalition committed to strengthening local democracy. As Jenkins-Smith and Sabatier (1993) point out, 'significant perturbations external to the subsystem (e.g. changes in socio-economic conditions, system-wide governing coalitions or policy outputs from other subsystems)' (p. 194) could alter the distributions of resources between these rival coalitions and give the local democracy coalition the opportunity to effect a significant change (or even reversal) in the direction of local government policy.

The quest for greater accountability

To prevent the future emergence of this type of advocacy coalition framework, Bassett and Elwood sought to design the reforms to reconcile the conflicting values of efficiency and democracy by engaging the restructured local authorities on a quest for greater accountability. These architects of local reform were very conscious of the criticism that is frequently directed towards any amalgamation initiative: which is that larger authorities can weaken local democracy by increasing the potential distance between citizens and their representatives on elected councils. To counter this criticism they were careful to ensure that the boundaries of the new councils encom-

passed identifiable 'communities of interest' as well as devising various institutional mechanisms to safeguard the 'localness' in local government and strengthen the democratic accountability of the new bodies. In particular, 'community boards' (with an advisory role only) were established within larger territorial authorities to give smaller communities a 'voice' in local government; a system of postal voting and ward elections in areas with a population above 20000 was introduced; and 'open government' at the local level was promoted through legislation which required that the meetings of councils and their committees be open to the public and, in what was a major innovation, stipulated that councils consult with, and respond back to, their ratepayers and electors about their annual plans and performance.

The internal restructuring of local authorities established clear vertical lines of accountability between the CE and those functionally distinct council departments and business units placed under this officer's management. In addition, the capacity of elected councils to hold CEs accountable for their managerial performance was arguably strengthened by the legislative requirement that there be a shift to an accrual basis for financial statements, the budget and appropriations. This represented a dramatic change from the situation that typified most local authorities before 1989 where 'accounts were prepared on a cash basis for the entity as a whole, and were virtually meaningless as a source of information on its activities' (McKinlay 1994, p. 21).

Despite the significant compliance costs these consultative, accountability and reporting requirements predictably came to impose, particularly on smaller authorities, the reformers appear to have believed that these would not only be offset by the incentive they would give CEs to seek greater efficiency in the provision of council services but also in the opportunity they gave citizens to participate in local decision making and hold office-holders to account for their performance. The 1989 Act also left elected councils with the discretion to determine the level and structure of their property rates, the mix of services they would provide, the methods of delivery and their stake in the ownership and provision of these services. As table 2 indicates, rates remained the main source of revenue for the restructured local authorities.

Moreover, while the establishment of a internal organization structure made up of single objective, manageable units with a clear linear accountability made it easier for local authorities to fully privatize those commercial activities that had been transferred to LATEs and to contract out, through a tendering process, those activities which it would continue to fund but not provide 'in-house', the discretion to take these privatization and contracting-out options was nevertheless left with elected councils. Many councils did, however, take these options in the early 1990s with the result that the Department of Internal Affairs (1994) found that from 1989 to July 1994 delivery of local government services exclusively by council

TABLE 2 Main revenue sources of local authorities (1994–95)

Source	%
Rates	57
Sales and other income	19
Grants, subsidies and levies	10
Investment income	8
Fees and fines	4
Petroleum tax	2

Source: Statistics New Zealand

departments had declined from 70 to 26 per cent with delivery by external providers rising from 22 to 48 per cent and by 'business units' rising from 2 to 18 per cent.

The framework established by the 1989 reforms did, therefore, allow scope for significant variation to emerge in the degree to which councils retained their stake in LATEs, provided services in-house or used their rates revenue to expand into new areas of service provision or to cross-subsidize the users of some services from the differential rates applied on residential or business properties. It seemed to be entirely consistent with the central intent of these reforms – which was to make local government more democratic and efficient by making it more accountable – if council decisions in these areas could be made more transparent. The additional reporting requirements imposed by the Local Government Amendment Act of 1996 were apparently directed toward this end. The 1996 Act thus sought to advance the quest for greater accountability initiated by the 1989 Act. Accountability was thus established as the core objective of the policy sub-system surrounding local government so that reform in this area could unfold in the coherent direction that Schick (1996) observed in central government where 'accountability has not been an afterthought; it was designed into the system at the outset, and as gaps in accountability have been identified, additional requirements have been imposed' (p. 73).

The Local Government Amendment Act of 1996

The 1996 Act requires local authorities to prepare two major policy documents: a long-term financial strategy and a funding policy. Through their long-term financial strategies, councils are now required *inter alia* to specify, for a period of at least ten years, the estimated expenses to fund the range of activities in which they expect to be involved, the justification for undertaking them and the cash flow they expect to receive from all sources. The intention was to discipline authorities to reflect carefully on the options for undertaking particular activities, including whether they need to be involved in some of them at all.

The other major requirement of the 1996 Act – that authorities prepare a funding policy document – did not proscribe cross-subsidization by sub-

jecting funding to the benefits principle of taxation but did require authorities to go through the discipline of reflecting on how far this principle could be applied by setting out the steps according to which funding policy documents were to be prepared. Essentially, this document requires local authorities to ascertain the extent to which particular goods and services are public goods, private goods or some mixture. Private goods should be paid for by end-users while the rates applied to finance public goods are to be allocated in proportion to the benefit which different groups in the community derive from the service. Once local authorities have made their judgement, 'on economic principles', as to the nature and distribution of the benefits of their activities, they are required to make transparent any further adjustments with respect to matters such as fairness or equity or the particular policy of the local authority.

It could be argued that the 1996 Act is a tribute to the success of the reformers in establishing a consensus on the principles that should guide local government policy development since it represented a logical extension of the concept of accountability contained in the 1989 Act. Conversely, it could also be argued that the Act advanced the quest for greater accountability to the point where it called attention to the issue of central-local government trust – an issue that had much greater potential to divide this policy subsystem along the lines suggested by the advocacy coalition framework. This tendency was, to some degree, latent due to aspects of incoherence in the understanding of 'government failure' held by different elements in the 1989 reforming coalition. On the one hand, the 'policy entrepreneurs' advocating the 1989 reforms appear to have viewed them as the crucial first step in the process of modernizing local government by increasing its capacity 'to deal with complex issues and meet local expectations' (Reid 1999, p. 168). On the other hand, the 'gatekeepers' who sought to maintain the system-wide coherence of the New Zealand reform process, were essentially 'economic rationalists' who allowed the proposals to advance because they saw them to be consistent with a reform model that sought to minimize the scope for agency failure and fiscal irresponsibility at all levels of government. The lines along which these divergent views developed during the 1990s must now be considered.

THE MINIMALIST-ACTIVIST DEBATE ABOUT THE COMPARATIVE INSTITUTIONAL ADVANTAGE OF LOCAL GOVERNMENT

Beneath the surface of the post-reform consensus on accountability, divergent views on the comparative institutional advantage of the restructured local authorities have developed that could eventually divide the local government policy subsystem into minimalist-activist advocacy coalitions. Some key differences between the proponents of the 'minimalist' and 'activist' policy lines are set out in table 3.

TABLE 3 *Minimalists vs activists in the local government policy subsystem*

	Minimalist	Activist
Key proponents	Business roundtable	Policy analysts in Local Government New Zealand
Underlying theories	Public choice, agency theory, the 'new institutional economics'	'Bottom-up' theories of governance, social capital theory
Assumptions about agents	Fiscally irresponsible when accountability is weak	Responsibly concerned with capacity to cope with multiple pressures
Institutional preferences	1. Public company 2. State-owned enterprise with single profit goal 3. Government department accountable for specific output 4. Local government	Democratically elected local body in horizontal partnership with a range of government agencies and non-government organizations
Assessment of expenditure trends	Indicative of weak accountability of local government	Indicative of local government modernization
Proposed directions for local government policy	1. Statutory obligation to focus on 'core' activities according to 'residuality' principle 2. Commercialization of road and water services	1. Devolution according to principle of 'subsidiarity' 2. Predictable funding as the basis for central-local trust
Sources of support	Economic rationalists in the centre, 'New Right' politicians, Manufacturers' Federation	'Social capital' advocates in the centre, the Labour-Alliance Coalition, voluntary organizations

The minimalist policy line

The key proponent of the minimalist line that 'local authorities should be required to focus on the public good activities that are the proper business of government at the local level, and prohibited from engaging in the provision of private goods and services' (Kerr 1999, p. 5) is the New Zealand Business Roundtable (NZBR). Since setting up an office in Wellington in 1986 under the direction of a former Treasury official, Roger Kerr, the BR has persistently advocated a downsizing of the role of government in the economy beyond that achieved between 1984 and 1993 and has sought to act as a 'fire alarm' alerting the policy community to instances of 'slippage', 'incoherence' and 'reversal' in those subsystems that were subject to radical reform during this period. Local government is one of the policy areas it has singled out for special attention. The extraordinary interest this body has shown in local government issues is indicated in table 4.

In these documents the NZBR typically advances arguments derived from the same theories of government failure from which the Treasury con-

TABLE 4 References to local government in NZBR publications

References	Number
Media releases	27
Speeches	217
Submissions	58
Publications	37
Total	329

structured its blueprint for public sector reform in its 1987 briefing papers. Underlying these theories is the core belief that people can be assumed to act in ways that best advance their own interests. If the public sector is then viewed as vertical 'chain of principal-agent relationships' (Moe 1984, p. 765), this means that the agents in this chain will behave in a fiscally irresponsible way when weak accountability arrangements allow them scope to do so. The NZBR has thus sought to prod central government into an ongoing process of evaluating the institutional arrangements through which it performs and devolves its functions to ensure that they minimize the scope for agency failure and fiscal irresponsibility.

A clear hierarchy of institutional preferences is usually applied, with local authorities being ranked below privately owned public companies and single-purpose government agencies respectively. Where feasible, the privatization of the commercial activities of both central and local government is invariably recommended. This recommendation, typically, is not based on empirical evidence. The evidence is by no means clear-cut and certainly differs depending on the nature of the activity. In fact, as McKinlay (1999) points out 'there is much less confidence that private ownership is inherently superior in natural monopoly industries such as electricity transmission or distribution than it is for activities which are more naturally contestable such as telecommunications or banking' (p. 87). Decisions then, are based on the logic of agency theory that leads to the conclusion that significant business assets are best held in public company form since individual shareholders (the principals) can sell their shares to new owners if they consider that managers (the agents) are not acting in their best interests. Where ownership remains in public hands, there is more scope for agency failure, since Ministers within central government or councillors within local government have to act as proxy for the true owners, taxpayers or ratepayers, who, in turn, have no right to exit from their investment by selling to a third party.

The New Zealand model of contractualist governance does, however, limit the scope for further agency failure in single-purpose agencies where a designated chief executive (CE) can be made contractually accountable for the delivery of a specific output. Unfortunately, despite radical restruc-

turing effected through the 1989 local government reforms, the NZBR would hold that the potential for agency failure remains greatest at this level of government. Unlike their counterparts in central government, the CEs of local authorities cannot be made accountable to political representatives for the delivery of contractually specified outputs since these authorities are multi-purpose organizations. This leaves them with greater discretion to engage in 'empire-building' activities. Even when they are faced with a fiscally responsible council, the information asymmetries that are inherent in their position can still give them the capacity to expand budgets. It is often unnecessary, though, for CEs to use their superior information to engage in 'councillor capture' since their relationships with councils are usually not sustainable unless they are based on some minimal level of co-operation. This became evident in the first five years after the reforms during which 36 out of the 86 local authorities replaced their CE with the most frequently cited reason being 'a breakdown in the relationship between the chief executive and the council' (Audit Office 1994, p. 7). The emergence of greater co-operation and reduced turnover in recent years is, however, unlikely to be viewed positively from the minimalist perspective taken by the NZBR since it leaves the possibility that high-spending 'iron triangles' between activist councils, empire-building CEs and rent-seeking interest groups could emerge at the local level of New Zealand government.

The NZBR also identifies a number of factors that may weaken the accountability of elected councillors for fiscally irresponsible behaviour:

- There is a low turnout at elections, usually no more than 50 per cent, despite postal voting.
- Few voters can identify more than a handful of candidates on ballot papers.
- Often candidates do not have a party affiliation, so that voters cannot use the information that is normally provided by party platforms to make their choice.
- Mayors and chairpersons do not necessarily lead the political party or parties with a majority on a council or command the support of a majority of councillors and are therefore sometimes unable to implement the manifestos on which they were elected.

There may thus be considerable scope for elected councils to use 'log-rolling' tactics to push their pet projects through committees. They can thereby enhance their re-election prospects by claiming credit for the implementation of these projects while at the same time avoiding blame for the upward drift in government spending that can occur when the other councillors also behave in a fiscally irresponsible way.

To limit the scope for agency failure at the local level, the NZBR considers that local government policy should be shaped by the residuality principle 'that local government should be selected only where the benefits of such an option exceed all other institutional arrangements'. It is prepared to con-

cede that local authorities may have a comparative institutional advantage in 'administering necessary local regulations' and in funding (but not typically providing) genuinely local public goods such as library services and rubbish collection whose benefits do not extend significantly beyond a particular community. However, it points out that even where councils possess better information on the value that their communities place on such goods, relatively weak accountability arrangements may not give them sufficient incentive 'to use that knowledge to the benefit of their communities' (1995, pp. 19–20).

The activist policy line

This somewhat pessimistic view of the role of local government has been countered by the proponents of an activist policy line. They have sought to endorse and encourage the tendency some local councils, particularly in urban areas, have shown since 1989 to move from a traditional focus on providing infrastructure and other 'core' activities towards playing 'a lead role in working with their communities to define the economic and social outcomes they seek, and to develop the means for achieving them' (McKinlay 1999, p. 99). Although the national association of local bodies, Local Government New Zealand (LGNZ), is less identifiable by its advocacy of a particular policy line than the NZBR since it seeks to represent the collective interests of its members, it has provided an important forum for the advancement of this line by individuals such as Mike Reid, its 'Strategy Leader, Governance', and Peter McKinlay, a frequently used consultant on local government issues. The core beliefs of their activist policy line are based on the 'autonomist' view of local government as a sphere of government in its own right that derives its legitimacy from its effectiveness in meeting community expectations and local needs. This can be contrasted with the 'functionalist' perspective the NZBR derives from agency theory that regards 'local government as an agency of the state drawing its authority and mandate from the centre' (Reid 1999, p. 168).

'Governance' is thus seen from the activist perspective as the primary role of local authorities. In an earlier article, Reid (1994, p. 2) proposed that the four elements of 'local governance' be the 'guardianship of difference'; 'the protection of future selves'; the advancement of 'positive rights'; and the provision of 'civic leadership'. This writer argues that 'good local governance' will be based on the 'participatory model' which recognizes that there is more than one 'public' and thus seeks to take account of the diversity of interests in a geographic community (including those of citizens beyond the current generation), by bringing groups (including those under-represented by the political process) together in deliberative fora where issues and concerns are sought out and given full expression. The governance role can thus be seen as being synonymous with a catalytic, participatory style of leadership that forges a common vision for the community

in a way that cannot be 'contracted out, delegated to appointed boards of management or ultimately privatized' (p. 5).

From an activist perspective, local councils can be seen as having a comparative institutional advantage in the supply of local governance since they are multipurpose agencies who interact with other local agencies and groups on issues that cross sectoral boundaries and which are defined by the needs of localities or places. The public sector reforms implemented in New Zealand since the late 1980s have in their view strengthened this institutional advantage, particularly with respect to the co-ordination and advocacy roles of local government. The CEs of local authorities came to distinguished from the CEs of government departments in that they were given a holistic responsibility for the entire range of their institution's activities and could thus play an increasingly important role in co-ordinating the activities of central agencies whose narrow, contractually determined, focus could otherwise lead to fragmentation and overlap in their provision of public services to local citizens. In addition, the dismantling by the 1993 health reforms of other locally based democratic structures such as Area Health Boards has increased the importance of local government as a vehicle for articulating local concerns since it has become 'the only democratically accountable body representing geographic communities' (Reid 1999, p. 168).

This view of local government appears to be based on fundamentally different assumptions about the motivation of local authority decision-makers to those derived from public choice and agency theory. Instead of presuming them to be agents who will take advantage of weaknesses in the accountability system to behave in a fiscally irresponsible way, the autonomist view sees them as trying to cope responsibly with a number of conflicting pressures, demands and expectations and focuses on factors that enhance their coping capacity. These factors are best viewed from a bottom-up perspective (Sabatier 1986) that highlights the importance of 'implementation networks' that link local, regional and national actors involved in the planning, financing and execution of the relevant government and non-government programmes. As in other areas where policy theorists have sought to counter the dominance of economic rationalism in New Zealand policy discussion, activists in the local government subsystem have drawn on recent developments in the theory of social capital to rationalize this bottom-up emphasis on implementation networks.

The writer cited most often in this regard is Robert Putnam (1993) whose study of regional governments in Italy attributed variations in public sector efficacy and economic performance to different levels of social capital, defined as those features of social life including 'networks of civic engagement', 'norms of generalized reciprocity' and relations of social trust that enable participants to act together more effectively to pursue shared objectives. While both Putnam (1993) and Fukuyama (1995) emphasize that while social capital is a precondition for effective governance, intervention

to enhance social capital can have perverse consequences, activists such as Reid appear take a more optimistic view of the role local governments, in particular, can play in encouraging the preconditions that allow for social capital formation. This writer thus acknowledges that social capital is 'primarily constructed at the community level' (Reid 1997, pp. 106–7) but suggests that local governments can contribute to its formation through a strategy that seeks to build network relationships with other agencies, voluntary organizations and community groups that take the form of horizontal partnerships rather than vertical principal-agent or patron-client relationships. In particular, if the partnerships local authorities forge with voluntary associations are to preserve and enhance social capital, then it is important that the local authority avoids treating them like any other service provider and recognizes the distinctiveness of the voluntary or membership nature of these organizations.

Activists such as Reid acknowledge that their emphasis on the role local authorities can play in community governance and social capital formation is reflected in some features of government policy in this area. Section 598 of the 1989 Act does, for example, give councils powers to promote community welfare either themselves, or by making grants to any organization or group who shares this goal within their 'community of interest'. In addition, the central government has since 1996 sought to co-operate with local authorities in a number of community-based initiatives. Of these only the Safer Community Council (SCC) Programme constitutes a genuine partnership initiative. Through this scheme local authorities can apply to the Crime Prevention Unit that operates within the Department of the Prime Minister and Cabinet for annual grants of up to \$40 000 to enable them to establish SCCs that typically include within their membership a wide range of community groups and government agencies (most commonly Police, Corrections and Social Welfare) with an interest in devising local solutions to local problems of crime prevention. Other instances where government departments have sought some involvement by local authorities in the delivery of services include a community 'workfare scheme' and the 'Welfare to Well-being' and 'Strengthening Families' initiatives of the Department of Social Welfare (DSW). In these cases devolution is pursued thorough co-option rather than partnership with councils being co-opted into a local liaisory role in the case of the DSW initiatives and having to make work available for those former beneficiaries who qualify for the community wage programme. There are also numerous cases of unintended devolution that have arisen where councils have sought to fill gaps created by central government withdrawal from their communities. Most notably local authorities have, throughout the 1990s, become increasingly involved in health services advocacy and planning while some have even sought to keep hospitals and clinics open in the face of central decisions to close them down.

The major concern from an activist perspective is that this process of

devolution is occurring in an *ad hoc* manner in the absence of any overarching policy framework to organize and structure central-local governance relations. Reid (1999) has proposed that the devolution of government functions to the local level should be governed by the *subsidiarity principle*. The most notable international application of this principle is by the European Union in its relations with individual nation states. In New Zealand, however, the 1988 Royal Commission on Social Policy's recommendation that 'no organization should be bigger than necessary and nothing should be done by a larger and higher unit than can be done a lower and smaller unit' has had little influence on government policy. Reid argues, nevertheless, that this subsidiarity principle can be used to formulate a checklist of the key criteria for determining the location of accountability – not only between different spheres of government but also between governments and communities. Specifically he contends that any checklist 'needs to address the distribution of benefit; information needs and complexity; the relative importance of local knowledge and national consistency; the degree of national significance; the importance of critical mass and value of local discretion' (1999, p. 180). Thus while this principle can be contrasted with the residuality principle advocated by the MAC in that it implies a presumption for rather than against the devolution of responsibilities to local government, its application would require an empirical assessment of the capability of different levels of government to undertake particular activities. According to McKinlay (1998) some caution may need to be exercised in this regard there is a wide variance in capacity across New Zealand's territorial local authorities so that a 'decision to delegate a function to local authorities generally may carry with it the risk that the performance of some will fall beneath some acceptable level' (p. 14).

In general, activists appear to favour a gradualist approach to devolution that would focus, first of all, on rebuilding relationships of trust between central and local government. While the member councils of the LGNZ may vary in their degrees of activism, they tend to share a common concern with the need to form and preserve relationships of mutual trust with the centre with predictable funding being the basis for this trust. This concern is clearly expressed in McKinlay's (1998) argument that:

For government to have the freedom it may want to allocate functions in an optimal way, it is important that the parties to whom those functions may be allocated can have confidence in the basis of allocation. This means clear and shared understandings of what is being transferred and who will be expected to bear the costs. It means assuring the parties who may receive the allocation that they will not be exposed to the political risk which can arise, for example if government reduces its financial commitment once a program has become well established in new hands. (p. 31)

The theories and assumptions underlying the activist policy line clearly

TABLE 5 *Average percentage shifts in final expenditure, 1978–1997 (1997 Dollars)*

	1978–84	1985–90	1991–97
Central government	3.0	1.5	–0.11
Local government	6.1	–0.9	2.7
Households	1.9	1.9	2.4

give rise to fundamentally different perspectives on central–local government relations from those that shape the minimalist line. The way in which these divergent perspectives have been applied to the evaluation of post-reform expenditure trends must now be considered.

Minimalist vs activist perspectives on expenditure trends

McDermott and Forgie's (1999) findings about shifts in the real value, relative size and functional composition of New Zealand local government spending as shown in tables 5 to 7 are representative of the empirical background against which both minimalists and activists have sought to evaluate the impact of the 1989 reforms.

Table 5 indicates that while public sector reforms appear to have induced a downward (albeit modest) trend in the rate of increase of central government expenditure, the same cannot be said of local government in respect of which spending increased by 2.7 per cent in real terms over the 1990s after falling 0.9 per cent in the period immediately preceding the reform

TABLE 6 *Percentage changes in final expenditure in relation to GDP, 1978–97*

	1978	1984	1990	1997
Central government	15.5	16.4	17.2	15.0
Local government	2.0	2.4	2.3	2.4
Household consumption	67.0	65.9	71.1	73.6
Saving	14.2			7.5
Non-profit services	1.0	0.9	1.2	1.5
GDP	100.0	100.0	100.0	100.0

TABLE 7 *Patterns of functional change, Lower North Island 1993/4–1997 (1997 Dollars)*

Functions	1993/4 \$m (%)	1997 \$m (%)	Shifts 1993/4–7 \$m (%)
Democracy	19.0 (3.3%)	20.9 (3.6%)	1.9 (10.0%)
Regulation	49.9 (8.7%)	52.6 (9.0%)	2.7 (5.4%)
Services to property	339.9 (59.7%)	315.5 (53.8%)	–24.4 (–6.7%)
Services to community	161.7 (28.3%)	196.7 (33.6%)	35.0 (21.6%)
Total	572.5 (100%)	585.7 (100%)	13.2 (2.3%)

of this sector. Inspection of the annual figures reveals an erratic pattern in local government spending since 1989. According to McDermott and Forgie (1999) 'this supports the view that reform carries with it significant and unpredictable costs that take some time to work through the sector' (p. 251).

Table 6 nevertheless shows that the impact of these trends on the relative size of local government has been negligible, with local government's share of GDP rising 0.4 per cent between 1978 and 1984 and remaining stable at around 2.4 per cent thereafter. These aggregate trends do, however, conceal significant changes in the functional composition of expenditure shown in table 7.

Although table 7 is based on McDermott and Forgie's analysis of the annual reports of 15 councils covering both urban and rural areas in the Lower North Island over the period 1993–97, it is representative of a nationwide trend has been highlighted by both minimalists and activists. While the increases in the 'costs of democracy' and expenditure on regulation would reflect the additional reporting, monitoring and consultation imposed on councils and their greater responsibility for environmental regulation, the most dramatic expansion in spending on *services to the community* which has more than offset the reduction spending on property services 'confirming the proposition that any potential for contraction of local government has been offset by a realignment of functions' (McDermott and Forgie 1999, p. 254).

For minimalists the 'positive spin' that activists such as McDermott and Forgie place on these trends is itself a source of concern. While these writers view as an 'achievement' the fact that local authorities have been able to absorb the costs of complying with the accountability requirements of the 1989 reforms and the increased statutory responsibilities for environmental regulation imposed by the Resource Management Act of 1991, without 'significantly' increasing their spending or the burden on ratepayers, the NZBR position is that this is 'simply not good enough'. Central government departments also underwent a radical restructuring and had to cope with the burden of complying the demands of what Schick (1996) termed a 'hard-edged contractualism' after 1989. However, the tendency for local government spending to creep upward over a period (1991–97) in which tight fiscal discipline reversed the upward drift of central government spending may be attributable, at least in part, to the fact that local authorities were under less pressure to seek efficiency gains to offset additional compliance costs since they continued to have the discretion to pass these costs on in the form of rate increases. Kerr has even gone as far as to suggest that there may be a 'political business cycle' in the pattern of rate adjustments: 'The politics of local government have been perfectly illustrated over the past 12 months. Last year, an election year, rate increases were typically low. This year many councils are proposing double digit rate increases. ... Some councillors have blamed the proposed rate increases on a legislative requirement to provide for depreciation. That is a feeble excuse. ... It was

the failure of some councils to provide for depreciation in accordance with accrual accounting rules introduced in 1990/91 that led to legislation explicitly requiring councils to provide for depreciation' (1999, p. 5).

Secondly, minimalists view the trend toward a functional realignment of local government spending in a way that is diametrically opposed to that of activists. On the one hand, McDermott and Forgie (1999) suggest that the impact of the 1989 reforms should be positively evaluated more in terms of the way they enhanced the capacity of local authorities to take on more functions and thereby play a more activist role in the social and economic development of their communities rather than in terms of any overall contraction in the size of this sector. On the other hand, the NZBR has become increasingly concerned that this trend could place more publicly funded services outside the control of the centre and diminish the capacity for activist councils to meet the demand for 'traditional' local public goods. It suggests that some of those urban councils who 'continue to engage in a wide range of activities that should be left to the private sector or central government' may have 'neglected their traditional activities, such as roading, sewage disposal and drainage, to such an extent that inadequate services are limiting growth and development' (Kerr 1999, p. 2). Through such arguments the NZBR may have cultivated the climate of mistrust in local government that shaped recent proposals for the reform of road and water service provision.

Minimalist reform proposals and the mobilization of rival advocacy coalitions

The breakdown of the two-party coalition formed after the first election under mixed member proportional representation (MMP) rules in 1996 gave a minority National Cabinet the opportunity to shake off the 'reform fatigue' that had characterized New Zealand governments since 1993 and embark on some bold reform initiatives along the minimalist lines advocated by the NZBR. In 1998, two of these initiatives: the government recommendations for road reform – 'Better Transport Better Roads'; and the announcement of a water review by the Minister of Commerce – appeared to threaten community involvement in two areas that had traditionally been regarded as the 'core business' of local authorities. This threat was more explicit in the case of the roading reform, the proposals of which were set out in a White Paper which recommended, *inter alia*, that:

- four to eight regionally based state-owned road companies would take over running local roads from New Zealand's 74 territorial local authorities;
- rates would no longer be used to fund roads;
- the road companies would be able to fully fund regional roading needs through a road levy imposed at the point of sale on transport fuels.

It should also be noted (a) that according to Hutchings (2000a) local roads,

the majority of which are currently owned by local authorities, 'represent around 73% of the value of the total roading network and 89% of its length' (p. 2). A State-Owned Enterprise – Transit New Zealand – is responsible for the provision of state highway services and (b) that the current situation is that 'local roads are paid for in roughly equal proportions by taxpayers and ratepayers' and that 'expenditure priorities are set by a crown entity, Transfund New Zealand' (Hutchings 2000a, p. 3).

The extent to which the provision of roading services constitutes a core function of local government is indicated by the finding that 'roading is the single largest expenditure item for many local authorities, accounting for up to 60% in some jurisdictions. On average, 27% of locally sourced funds are spent on roading' (Hutchings 2000a, p. 2). The signal these proposals sent to local authorities was that they were not trusted sufficiently to provide even their core services in an efficient manner and that a National Cabinet and their Treasury advisors had joined the NZBR in its drive to find institutional alternatives to their ownership and management of these services. This signal was reinforced when the announcement of a review of water services that are currently supplied '85% of the population' by local authorities 'came hard on the heels of these recommendations' (Hutchings 2000b, p. 3). By drawing attention to 'the degree to which competition and competitive neutrality may be established between alternative suppliers, including from the private sector', the terms of reference of this review made clear that some rolling back of local government involvement in this sector was to be considered.

These proposals constituted a significant departure from the core objective of making local democracy more effective by making it more accountable that had formed the basis of the post-1989 consensus on local government policy. Activists within LGNZ were able to find a common cause with its other members in lobbying to modify these proposals to allow local authorities to retain their stake in the governance of road and water services. At issue was the extent of trust central government was prepared to place in local councils to manage 'competing interests', preserve citizen rights of access to basic services and 'determine future ownership and service delivery arrangements' (Hutchings 2000b, p. 8) in respect of assets that it argued 'play a fundamental role in promoting efficient and cohesive communities' (Hutchings 2000a, pp. 5–6).

The issue of central-local trust therefore appears to have replaced the issue of accountability as the primary focus of the local government policy debate. While a consensus developed on the desirability of strengthening accountability, the debate over roading and water reforms has produced a policy subsystem that is more sharply divided. The NZBR, the Treasury, the Manufacturers Federation and 'New Right' politicians would all appear to be lined up against the LGNZ in its efforts to preserve local autonomy and build trust-based relations with the centre. Nevertheless the balance of power appears to be shifting toward the LGNZ. By aligning itself with the

'social capital movement' it has been able to gain a sympathetic hearing from those government agencies and left-of-centre politicians who have sought 'bring back balance to policy development' (Robinson 1997) through taking into account the impact of policies on social capital and social cohesion. This became evident after the election of a Labour-Alliance Coalition in 1999 when the new government moved quickly to fulfil its pre-election commitment to rebuild relations of trust by initiating a regular forum 'to identify policy issues requiring debate and further work and to develop a long term coherent strategy for local government as a whole' and by indicating that the 'Better Transport, Better Roads Proposal' is 'well and truly dead' (Hutchings 2000a, pp. 11–12). The issue of whether a stable alignment of advocacy coalitions is being formed in a way that calls into question effectiveness of the New Zealand-style reform strategy must now be considered by way of conclusion to this paper.

CONCLUSION

Three features of the advocacy coalition framework set out by Jenkins-Smith and Sabatier (1994) appear to be relevant to the current debate over the future direction of local government policy in New Zealand. In the first place, these writers propose that the main controversies in a policy subsystem should involve disputes about the core beliefs of opposing coalitions. There are some indications that this is occurring as the parameters of the debate surrounding the road and water reform proposals have been widened to highlight the issue of how much trust central government should place in local authorities. This issue cuts to the heart of the different core beliefs the NZBR, on the one hand, and the activists in the LGNZ, on the other, hold with regard to the comparative institutional advantage of local government and shows the potential these beliefs have to divide the policy subsystem into rival minimalist and activist advocacy coalitions. Secondly, the divergent ways in which minimalists and activists have evaluated local government expenditure trends in the 1990s is consistent with the view that such coalitions will use 'substantive policy information' to buttress their position in an advocacy fashion. Thirdly, the significant shift in local government policy direction that has been signalled by the new Labour-led government is in line with the prediction that changes in government can produce this type of shift where they 'alter the resources and opportunities of various coalitions' (Jenkins-Smith and Sabatier 1993, p. 193).

Any suggestion that the advocacy coalition framework now applies to local government policy in New Zealand should, however, be hedged by an important *caveat* concerning the stability of the structure that is emerging. While LGNZ currently enjoys internal and external support for its call to respect local autonomy and strengthen trust-based relations with the centre, this may not extend to the more ambitious activist proposals for devolution according to the principle of subsidiarity. The new government

may seem to be more responsive to LGNZ concerns than its predecessor but it is unclear about whether it will seek to more fully endorse the principle of local autonomy by granting the Power of General Competence to Local Government. Furthermore, as councils face the financial implications of having to upgrade ageing infrastructure, they may be less united in their resistance to proposals to shift this responsibility to separate corporate entities along the lines foreshadowed in 'Better Transport, Better Roads'. On the minimalist side, the Treasury may be less opposed in principle to activist devolution proposals than the NZBR and 'New Right' politicians. Certainly, its briefing papers to the incoming government in 1999 acknowledged a major concern of the social capital movement by listing the goal of social cohesion as being one of the 'six elements that should be at the heart of good public policy' (p. 4). The future position participants may take in the debate about the direction of local government policy may thus be less predictable than would be the case if a fully developed structure of advocacy coalitions had formed in this subsystem.

One problem we have faced in determining the extent to which the New Zealand reformers have failed to prevent the emergence of a line-up of rival advocacy coalitions within the local government policy subsystem, is that overseas studies are not that specific about the minimum degree of mobilization around opposing sets of policy beliefs that should occur before a subsystem can be described as having an advocacy coalition structure. Thus while Jenkins-Smith and Sabatier (1993) hold that 'most' actors in such a subsystem can be 'aggregated into a number of advocacy coalitions' they acknowledge that 'conflicting studies from various coalitions are normally mediated by a third group of actors, here termed policy brokers, whose principal concern is to find some reasonable compromise which will reduce intense conflict' (p. 182). These writers suggest that a clear-cut case of a policy subsystem that has 'evolved over a decade or so from some vague initial consensus . . . to two coalitions espousing quite different belief systems' has been established in their analysis of public representations (in the form of testimonies at public hearings, position documents and so on) 'dealing with land use and water quality policy in the Lake Tahoe Basin (California and Nevada) between 1960 and 1984' (pp. 185–6).

The case of local government policy in New Zealand appears to be less clear-cut, mainly because the minimalist-activist debate has only showed a capacity to engage most participants in this policy subsystem in the last few years as a controversy has erupted over the role of local government in the provision of road and water services. Jenkins-Smith and Sabatier (1993) hold that for a policy subsystem to be described as having an advocacy coalition structure 'on major controversies ... when policy core beliefs are in dispute, the lineup of allies and opponents' must be 'stable over periods of a decade or so' (p. 184).

The caution that should be exercised in applying the advocacy coalition framework as a descriptive tool should not, however, detract from its use-

fulness, along with the 'Rhodes model', in evaluating the effectiveness, within particular policy subsystems, of a top-down reform strategy of the type followed in New Zealand during its most recent period of radical reform. The distinction Haggard and Kaufman (1993) draw between the 'implementation' and 'consolidation' stages of a reform process may suggest a possible 'division of labour' in this regard. While the Rhodes model highlights sources of potential resistance that may need to be overcome if structural reforms are to be effectively implemented, the advocacy coalition framework highlights potential sources of conflict that may preclude effective consolidation on the basis of a stable post-reform consensus.

The evolution of local government policy in New Zealand after the radical restructuring set in motion by the 1989 Act suggests that effective consolidation may be more difficult to achieve than effective implementation. While the resistance to the reforms subsided significantly once the restructuring process was completed, sources of conflict that were latent within the reforming coalition have surfaced as the quest to reconcile efficiency and democracy values by making local government more accountable appears to have exhausted itself. These areas of conflict that relate to diverging 'core beliefs' on the comparative institutional advantage of local government have come to reflect the ideological divisions between parties to the left and right of centre. They may therefore have the potential to cause more abrupt shifts in local government policy direction after changes in the composition of governing coalitions than would occur if the coherence of policy development was maintained by the effective consolidation of core reform principles.

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BEYOND POLICY COMMUNITY – THE CASE OF THE GP FUNDHOLDING SCHEME

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The paper examines the conception, implementation and abolition of the GP fundholding scheme, all within 10 years, for evidence of a changed style of health care policy-making. A health care policy community, in which the interests of the medical profession were prominent, existed between 1948 and the mid-1980s. The paper highlights the important factors in the breakdown of the policy community and traces the effect through to the negotiation, implementation and abolition of the GP fundholding scheme. In particular, the role of evidence in health care policy-making has changed significantly. A consequence of the collapse of the policy community has been that a 'folk psychology' rather than evaluative evidence has guided some aspects of health care policy since the 1990s.

INTRODUCTION

During the early 1990s, publicly funded health care systems in many developed countries were subjected to major structural reorganization and reform (Ham 1997). Such reforms were designed to exert greater control over state spending on health care and to improve the efficiency with which these systems operated. To help meet these aims, attempts were often made to stimulate competition between hospitals that provided publicly funded services and to encourage doctors and other professionals to control public expenditure on health.

In keeping with the international trend in health service reorganization, the Conservative government introduced a range of National Health Service (NHS) reforms in April 1991. Such reforms were designed to improve the system's operation by addressing a number of perceived weaknesses in its centralized management structure. In particular, a system where the allocation of resources had been '...determined largely by the sum of the individualistic behaviour of individual doctors rather than through a hierarchical process of resource management' (Wistow 1992, p. 59). The government attempted to compensate for the lack of 'the right economic signals' by introducing new incentive structures designed to encourage provider units and NHS staff to meet the 'limitless demand' for state-funded health care within a cash-limited, public budget (Thatcher 1993, p. 606). To this end, the government introduced an 'internal market' for NHS services; this separated the purchasing and provision of health care interventions and

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allowed general practitioners (GPs) to elect to hold a cash-limited budget for the purchase of a limited range of secondary care, staffing and pharmaceutical services.

This paper examines the conception, implementation and abolition of the GP fundholding scheme for evidence of a changed style of health care policy-making. As Smith (1993, p. 165) observes, '...for most of the postwar period, the relationship between the government and the doctors can be characterised as a closed policy community'. Health care policy-making between 1948 and the mid 1980s was a worked example of a policy community according to the typology provided in Marsh and Rhodes (1992, p. 25): there were two policy actors; membership was stable across time; there was a strong consensus on the values of the NHS; and other potential actors were excluded. This exclusion occurred both institutionally, through the ministry giving formal recognition to the interests of doctors, and ideologically, through the doctrine of clinical autonomy that gave doctors the ultimate responsibility for implementing any health care policy.

The health care policy community favoured incremental and limited change because radical change threatened the consensus on which the community was based. As Jordan and Richardson (1987, p. 6) put it, 'The established interests are often pursuing marginal adjustments to policy in non-public, routinized relations with civil servants who share a commitment to that policy.' For similar reasons, the policy community existed around depoliticized issues and programme sectorization. These issues could be placed neatly into sectors and were sufficiently technical in nature to keep groups or interests without that expertise from threatening the closed policy community.

Within the health care policy community, '...conventional wisdom has emphasized the dominant nature of professional rather than political or managerial influences...' (Wistow 1992, p. 51). This led Rhodes (1988, p. 78) to label the situation as a particular type of policy community, a 'professionalised network'. The medical profession enjoys a large pool of political resources: in particular, control of technical and specialist knowledge that is essential for the well being of society. The perception of the medical profession as apolitical (in party political terms at least) helped give the views of the British Medical Association (BMA) a moral authority and make them, potentially, highly influential in public opinion (Klein 1995).

The policy context also helps explain the political strength of the medical profession in Britain. The NHS is a publicly funded health care system, with publicly owned hospitals. From 1948, successive governments have relied on doctors to deliver health care policy. For this reason the health care policy community came to be highly institutionalized after 1948 with the medical profession having a central role at every stage of the policy-making process (Ham 1992; Webster 1988; Klein 1995).

Klein (1995), Smith (1993) and Wistow (1992) all suggest that the enactment of the 1991 NHS reforms, and GP fundholding in particular, provided

a strong challenge to the policy community in health care. The style of both the NHS Review and the subsequent enactment of the NHS Act provided the threat. This paper uses the evidence of the development of the GP fundholding to argue that: (i) there no longer exists a health care policy community; (ii) the development of the GP fundholding scheme was not based on evidence but rather guided by a 'folk psychology'; (iii) the lack of an evidence-based approach was a consequence of the collapse of the health care policy community. As Hunter (1998, p. 133) puts it, 'Health policy has been driven by a mix of ideology, fashion and pragmatism but never by evidence.'

The section that follows describes the introduction of the GP fundholding scheme as evidence of a fractured health care policy community. The framework of Hindmoor (1998) is used to highlight the breakdown of trust between the government and the BMA. The next section traces the rise of folk psychology around the GP fundholding scheme as a consequence of the collapse of the policy community. I then go on to consider the Labour government's policy response to fundholding for evidence of an attempt to rebuild trust with the medical profession. In the final section, the implications of the collapse of the policy community for NHS policy development and the role of evidence are discussed.

THE END OF THE POLICY COMMUNITY IN HEALTH CARE

The introduction of GP fundholding

The Conservative government's reforms were primarily based on ideas suggested by Professor Alain Enthoven from Stanford University Business School and Alan Maynard, professor of health economics at the University of York. As a result of a visit to the UK during the mid-1980s, Professor Enthoven argued that the funding arrangements for NHS hospitals lacked any incentives for them to improve the quality or the efficiency of the services that they provided (Enthoven 1985). Based upon this finding, the Conservative government attempted to improve the incentives for NHS hospitals by introducing an 'internal market' into the NHS, as part of the 1991 reforms. At a meeting arranged by the Office of Health Economics in 1985, Professor Maynard argued that NHS general practice also lacked the incentives to encourage GPs to control costs and to make efficient use of public resources. In response, he suggested that a system of budgets and associated incentives should be introduced into general practice for a range of secondary care and pharmaceutical services. Although Professor Enthoven did not envisage GP budget-holding as part of his internal market plans, Professor Maynard's ideas were championed by Kenneth Clarke, the Secretary of State for Health, and consequently became a late addition to package of NHS reforms (Lawson 1992; Klein 1995; Webster 1998a).

Details of the fundholding scheme were first published in the NHS White Paper, *Working for Patients*, and the accompanying working paper, *Practice Budgets for General Medical Practitioners* (DoH, 1989a, b). These documents

outlined the basic regulations of the scheme and the entry criteria that practices wishing to attain fundholding status had to satisfy. Initially, only practices with at least 11000 patients were eligible to apply for the scheme, partly due to fears that random variations in need could create significant financial problems for funds with smaller lists (Crump, Cubbon, Drummond, *et al.* 1991). However, in order to increase membership, the scheme's minimum list-size criterion was reduced to 9000 patients for the first wave of practices that became fundholders in April 1991.

Under the initial regulations, practices that attained fundholding status were allocated a cash-limited budget, which contained an element for: (i) the purchase of a defined group of elective hospital services (including diagnostic tests); (ii) the salaries of non-medical staff; and (iii) prescribing. The scheme allowed participating practices to vire funds between the various elements of the budget and to generate a surplus, something which could be spent on improvements to practice services, staffing or premises (that is, if the surplus resulted from efficiency savings, not windfall gains). However, fundholders that failed to manage their budgets appropriately could be exited from the scheme, with the result that, once again, they would be subject to the same regulations as other non-fundholding practices.

Margaret Thatcher led the NHS Review that worked during 1988 to produce *Working for Patients* in January 1989. The Cabinet Committee which steered the Review was small and consisted of a few trusted ministers, advisers and civil servants. There was no representation of either the BMA or the Royal Colleges (Klein and Day 1992). Further, there was no Royal Commission which had been the traditional instrument of ensuring consensus between the government and medical profession. Klein (1995, p. 184) argues that '...in its style, though not in its outcome, the Review marked a brutal break with the past...' and it was Mrs Thatcher's attitude to the exclusion of the medical profession in the policy process that was the 'brutal break'. As Smith (1993, p. 179) puts it, 'Doctors were no longer an essential partner in the development of health policy but a vested interest that had to be challenged.'

The BMA launched a major publicity campaign during the summer of 1989 to discredit general practice fundholding and the opposition Labour Party vowed to dismantle the scheme if elected into power. During the period 1989-91, the Labour Party and BMA worked in a 'curious and unspoken alliance' (Klein 1995, p. 192) in opposition to the proposals. The intensity of this political conflict between the BMA and the government has been compared with that involved in the setting up of the NHS between 1946 and 1948 (Wistow 1992; Klein and Day 1992). Despite the BMA's campaign, the GP fundholding scheme came into being in April 1991. There was no compromise or negotiation between the government and the BMA over the operational details or implementation of the scheme. The outcome

of the political conflict showed that the medical profession 'had lost their ability to veto change in the NHS' (Klein 1995, p. 199).

The policy community in health care

The factor that distinguishes a policy community from other forms of networks is the existence of trust between the actors. In particular, each actor trusts all other actors to observe the 'rules of the game'. This is a key theme in the policy community literature generally (Richardson 1993; Rhodes 1988; Marsh and Rhodes 1992) and particular analyses of the health care policy community (Smith 1993; Wistow 1992; Hindmoor 1998). Hindmoor (1998) describes the development of trust between the BMA and the post-war Labour government. He uses a simple Prisoners' Dilemma game to illustrate how this trust supported a bargain between the two actors on the 'rules of the game'. The 1946 Act that set up the up the National Health Service provided an enabling framework for the establishment of a publicly owned, publicly funded health service. This Act meant that the Labour government of 1945–50 relied on the medical profession for the implementation of the new NHS. Further, the BMA had certain demands for the new NHS. There was a clear interdependence between the Labour government and the BMA. Therefore there existed the possibility for mutually beneficial political exchange, or in other terms, welfare improving co-operation.

Figure 1 represents a pay-off matrix from a one-shot PD game. The Nash equilibrium point is (Defect, Defect) which means that neither the government nor the BMA co-operate with one another in terms of establishing the NHS. The problem is that there exists the outcome (Co-operate, Co-operate), which is better for both players than (D, D). However, there are large transaction costs associated with negotiating, implementing and monitoring the agreement for both actors to co-operate. The emergence of trust between actors helps ameliorate these transaction costs as informal rules and tacit understanding emerge to support a (C, C) equilibrium.

Hindmoor (1998) argues that the negotiations between the BMA and the government between 1946 and 1948 were a repeated PD game in which trust emerged through the development of informal rules and tacit under-

FIGURE 1. Simple PD game of interdependence between the government and the BMA

		Government	
		Co-operate	Defect
BMA	Co-operate	a,b	e,f
	Defect	c,d	g,h

Payoffs (BMA, government)
 Government: $f > b > h > d$
 BMA: $c > a > g > e$

standings to support a stable (C, C) equilibrium. A stable (C, C) equilibrium can be interpreted in terms of the health care policy community as each actor trusting the other actor to observe the 'rules of the game' over time.

There were two 'rules' that underpinned the operation of the health care policy community between 1948 and the mid 1980s. The first was that each actor should trust the other on both the process and substance of policy-making. Hindmoor (1998) and Wistow (1992) talk of trust becoming 'embedded' in the health care policy community. This trust supported a consensus on how business was to be conducted, as Jordan and Richardson (1987, p. 101) describe it '...the process by which and the atmosphere within which policy-making is decided'. In particular, this meant the exclusion of other potential interests in health care policy, for example, public opinion, Parliament, the rest of Whitehall, and hospital managers. Ham (1992), Webster (1988), and Klein (1995) describe how this exclusion became heavily institutionalized after 1948. The BMA had privileged access and a central role at every stage of the policy-making process.

The second 'rule of the game' was to be bound by the implicit contract (Klein 1995; Wistow 1992) between the government and the medical profession. The contract was that the former respected clinical autonomy in how to use resources but the latter accepted that the decision on the overall level of resources, the budgetary constraint, was a matter for the government. It was on the basis of the observance of these two rules that the health care policy-making in the UK has been described as a policy community.

Royal Commissions were the main conduits for the introduction of evidence into health care policy-making during the policy community period. They received submissions, interviewed experts and interrogated advice. Their reports, along with the input of 'the comprehensive central expert advisory machinery which was built up between 1948 and 1979' (Webster 1998a, p. 29), constituted the evidence which informed most of the structural changes to the NHS prior to 1991 (Webster 1988, 1996, 1998a). This was perhaps not the same quality of evidence as a deliberate and systematic policy evaluation which had begun to be introduced into the public sector in the UK in the late 1980s (Hood 1995). Royal Commissions and the centralized advisory machinery were nevertheless attempts to collate an informed body of opinion about the efficacy of structure of the NHS.

These changes to the NHS reflected the policy community that introduced them. They were never radical, concentrated on the structure of the NHS as a way of influencing the behaviour of staff and were introduced incrementally with long lead times after exhaustive consultations within the policy community. The early period of the Thatcher administration illustrated the type of evidence-based approach to policy-making that was characteristic of the health care policy community. In July 1979, the Royal Commission on the NHS established by the previous Labour administration and chaired by A.W. Merrison produced its final report (Royal Commission 1979). Based on the report's recommendations, in 1982, the Conservative

government reorganized the administrative structure of the NHS, replacing Area Health Authorities and districts with 192 District Health Authorities and placing Family Practitioner Committees under the direct authority of the then Department of Health and Social Security.

The breakdown of trust

The policy community model cannot accurately describe the policy process that led to the introduction of GP fundholding. In particular, the two 'rules of the game' of the health care policy community were not observed. First, the trust between the government and the BMA on how business was to be conducted broke. Second, the 'implicit contract' between the government and the BMA that set out the areas in which it was appropriate for each to take political action was not respected.

The first rule was broken in three main ways. First, there was an increase in the number of actors involved in the health care policy debate. It seemed that for the first time since the inception of the NHS, health authorities, hospital managers, Parliament, and, crucially, public opinion became, at least to some extent, influential in the development of policy. Second, the debate on health care policy was no longer contained within a closed policy community but instead took place in a public arena and became a party political battleground at the 1987 General Election. Third, a Royal Commission was not appointed and instead a small Review team within government was used to develop proposals.

The second rule of the health policy community game was transgressed in two ways. Firstly, both Smith (1993) and Wistow (1992) interpret the substance of the 1991 reforms, and the introduction of GP fundholding in particular, as an increase in managerial influence at the expense of clinical autonomy. The influence of the 'new' public sector management in the NHS had been increasing since the late 1970s. The catalyst for this trend has been the desire for macro-level cost containment and fiscal prudence by the Labour government of 1974–79. This had the corollary of raising policy-makers' interest in the efficiency and effectiveness of the use of existing resources. The second transgression was that the BMA had entered the party political debate in a manner that was more consistently confrontational and public than had usually been the case in the history of the NHS. The medical profession enjoys political resources by controlling technical and specialist knowledge and by being politically neutral professionals in a state-run health service which is the subject of strong party political debate. There always exists the incentive to use those resources to influence public opinion in support of a political campaign. In the debate over NHS funding before, during and after the 1987 General Election and, again, in the summer of 1989 over *Working for Patients*, the BMA mounted public campaigns against government policy.

A combination of factors caused the emergence of distrust in relations between the government and the BMA. Two events were particularly

important, the introduction of a limit on the range of drugs that GPs could prescribe on the NHS and, second, around 1987, a conflict of unprecedented scale and ferocity about the level of NHS funding. The plans for the first event were announced in November 1984 (Anon. 1984a) and the General Medical Services Committee of the BMA 'came out strongly against the government's intention', with several of its members predicting that a 'two-tier' NHS would be created (Anon. 1984b). In response to the BMA's opposition and campaigning by the pharmaceutical industry, the government decided to reduce its plans. In consequence, the 'limited-list' that was introduced in April 1985 only restricted the medicines that could be prescribed in seven major therapeutic categories, producing estimated savings of £75 million (rather than the originally estimated £100 million) in the first year (Harris 1996).

Webster (1998b) argued two things. First, the limited-list episode was 'an apparent humiliation for a government increasingly renowned for its success in confrontations with corporate interests' (p. 40). Second, it did, however, provide the Thatcher administration with the conviction that radical policy initiatives could be introduced without prior consultation with the medical profession, or the establishment of a formal investigation or Royal Commission. As Webster (1998b, p. 40) states, the episode 'constituted a firm platform for further and more audacious forays into the primary-care policy field'.

Financial pressure had been an ever-present feature of the history of the NHS, but by 1987, '...it was the willingness of the medical and nursing profession to accept those pressures which appears to have diminished dramatically' Klein (1995, p. 183). This conflict took both a public and party political form. Wistow (1992) and Klein (1993) observed a widespread perception presented by medical professionals through the media that the NHS was on the point of collapse. Appleby (1992) presents evidence that there was a severe funding problem in the NHS during the mid-1980s. Webster (1998a, p. 22) states that: 'It is well known that the government was blown off-course by the financial crisis affecting the health service in the autumn of 1987, with the result that it was forced to address as a matter of urgency the problems of additional resources and cost containment.'

Importantly for the policy process that introduced GP fundholding, Mrs Thatcher believed that before and after the 1987 election the BMA had entered the party political debate over the level of NHS funding (Thatcher 1993). The BMA had abused the medical profession's authority with the public and broken one of the rules of the policy community game, contributing to the fact that '...the public obstinately continued to see the health service as a casualty of the Thatcher administration's parsimony' Klein (1995, p. 178).

In the repeated PD game, once co-operation breaks down, the dominant strategy for each player is to continue to withdraw co-operation. The PD game then reverts to the Nash equilibrium of the one-shot game (D, D) as

Defect becomes the dominant strategy for both parties. In policy community terms this is the non-observance of the 'rules of the game' described above. Both the government and the BMA infringed the rules that had supported a stable (C, C) equilibrium since 1948. In the context of the introduction of GP fundholding, the lack of a policy community meant that the transaction costs of political exchange or negotiation between government and the BMA became so high that the former simply imposed a policy and '...one of the casualties... was precisely any willingness to discuss the nuts and bolts of implementation' (Klein 1995, p. 195). The imposition of such radical organizational change so quickly and without any pilot scheme, appraisal or Royal Commission, raises the question of the rationality of policy-making (Powell 1998).

POLICY DEVELOPMENT BY 'FOLK PSYCHOLOGY'

A defining characteristic of the development of the GP fundholding scheme between 1989 and 1997, the initial post-policy community period, was the lack of an evidence-based approach. The two established mechanisms for introducing evidence into policy-making did not operate in the period. There was no Royal Commission set up and the central advisory machinery had largely been abolished by the Thatcher administration (Webster 1998a). Further, there was no formal appraisal or evaluation of the effect of GP fundholding on health care or health. This contradicts the view that the reforms of 1991 represented a victory for the 'new' public sector management in the NHS. Instead, the reforms marked the end of the health care policy community and the start of some aspects of health care policy being driven by folk psychology. The section that follows considers steps by the Labour government to re-establish trust and introduce a more evidence-based approach to policy development.

The evidence on which policy development was based under the policy community period was undoubtedly biased towards the medical profession's view of the health care system. As Webster (1988, 1996, 1998a) discusses, Royal Commissions collected evidence from the medical profession about how the NHS was working and how any reform proposals might work. The nature of that evidence reflected the professionalized network that controlled its collation and reporting.

Without a policy community, there was no consensus on the introduction of GP fundholding, and therefore there were no common values against which to evaluate the scheme. Any policy assessment undertaken by experts would not have been used as evidence to inform rational policy development but instead would have been appropriated for political advantage. Lawson (1992) and Thatcher (1993) both express the considerable worries that the Conservative government had about the BMA exploiting any policy appraisal or evaluation of the GP fundholding scheme. As public opinion had become a factor in health care policy there was no time for either the government or the BMA to wait and see the effects of any pilot

scheme or policy assessment. Instead, each interest had had to articulate a public position immediately. It is argued in this paper that a form of 'folk psychology' (that is, common beliefs about the traits, characteristics or dispositions associated with a person, phenomenon or thing, not based upon evidence) may have influenced those public positions.

In the absence of trust, a form of folk psychology may have been sustained in two main ways. Firstly, many of the critics of fundholding were willing to risk a 'fundamental attribution error' in the sense that they, wrongly, attributed negative traits, characteristics or dispositions to the scheme without having the evidence required to substantiate their beliefs or assertions (Ross 1973). There was no mechanism to confront this folk psychology evidence or other views and they quickly became entrenched public positions. For example, in July 1995, the Labour Party restated its criticisms of the scheme (Labour Party 1995). Their position was that fundholding had increased NHS management costs, introduced financial pressures into the doctor-patient relationship and had created a two-tier health service. These were claims based on folk psychology, as there was no evidence for any of them.

Secondly, regardless of the evidence, some politicians may have calculated that vilifying the scheme was the best political response, as any initiative that attempted to introduce financial management into the NHS was likely to be unpopular with voters. The absence of a formal evaluation of the scheme allowed 'myths' about fundholding and fundholders to remain in general political discourse – without any independent, formal mechanism for testing their claims. Despite Labour's criticisms and pledge to abolish the scheme, over time, fundholding became more accessible and attractive to non-participating practices. As table 1 shows, during fiscal years 1991 and 1992 relatively few practices joined the scheme. However, following the Conservative government's election victory in April 1992, membership significantly increased. As a result, by fiscal year 1997, 4234 practices with 15038 GPs and 57 per cent of all patients had elected for, and achieved, fundholding status.

Official and empirical studies

In June 1995, the House of Commons Committee of Public Accounts published a report on the first three years of the operation of the fundholding

TABLE 1 *Number of English fundholding practices, GPs and population served, 1991/92 to 1997/98*

Practices	306	587	1235	200	2603	3735	4234
GPs	1715	3159	6103	8760	10 410	13 423	15 038
Population (%)	7	13	25	35	41	52	57
Year	91/92	92/93	93/94	94/95	95/96	96/97	97/98
Wave	1st	2nd	3rd	4th	5th	6th	7th

Source: NHS Executive Regional Offices.

scheme in England (Committee of Public Accounts 1995). Based on evidence provided by the NHS Executive (NHSE), the report detailed the effects of the scheme on the provision of patient services, practice-level prescribing patterns and on the generation and use of budget surpluses. Under the first heading, the NHSE's evidence suggested that fundholders had achieved a faster rate of delivery of secondary care services, while securing reductions in waiting-times, improvements in access and a widening of the range of services available to their patients. However, the NHSE argued that the scheme had not affected the care given to patients of non-fundholding practices, as fundholders had secured many of these improvements by purchasing previously unused hospital capacity.

Although evidence suggested that fundholding had helped improve the services that participating practices offered to their patients, the Public Accounts Committee had two main concerns about the operation of the scheme. Firstly, the committee suggested that the scheme had relatively high transaction costs, with cumulative expenditures on management allowances and computer purchases during the first three years of the scheme amounting to £147 million. Secondly, the committee noted that between fiscal years 1991 and 1993 a significant number of patients had been exited from practices at the request of their GPs. For example, during fiscal year 1992, 78000 patients had been asked to leave their practices at the request of their doctors. However, according to the Public Accounts Committee, there was no clear evidence that this occurred on cost grounds, or that patients were more likely to be expelled from fundholding practices.

Although the government did not commission an independent evaluation of the effects of fundholding, the external auditor for the NHS, the Audit Commission, produced some reports on the initiative. For example, in 1995, the commission published a briefing that described the scope of the fundholding scheme, charted its growth and analysed the budgets that fundholders managed (Audit Commission 1995). In 1996, the commission published a report on the first five years of the operation of the scheme entitled *What the Doctor Ordered: a Study of GP Fundholding in England and Wales* (Audit Commission 1996a). To accompany its report, the commission published a digest of information from the survey of fundholding practices which had been undertaken for the main study (Audit Commission 1996b).

What the Doctor Ordered was one of the most comprehensive reports published on the management, operation and effects of the fundholding scheme. As part of the study, the Audit Commission examined the demographic and organizational characteristics of participating practices. In relation to the former, the commission found that, initially, fewer practices in inner-city areas had become fundholders. As a result, participating practices tended to have more affluent and less socially deprived patients. Indeed, as table 2 shows, during fiscal year 1994, significant regional variations in fundholding coverage were evident, with the scheme achieving proportionately lower coverage in some inner city and/or deprived areas.

TABLE 2 *Variations in fundholding coverage by region, fiscal year 1994*

Region	Number of practices	Number of GPs	Proportion of population covered (%)
Northern	90	470	29
Yorkshire	152	714	39
Trent	286	1041	44
East Anglia	66	360	33
NW Thames	141	621	36
NE Thames	88	335	19
SE Thames	203	722	37
SW Thames	136	610	40
Wessex	101	505	31
Oxford	121	592	46
South Western	116	574	30
West Midlands	289	1203	42
Mersey	122	506	41
North Western	168	581	30
Total for England	2079	8834	36

Source. OHE (1997).

In relation to their organizational characteristics, the Audit Commission reported that fundholding practices tended to be relatively large, often housed in purpose-built premises, with more support staff and equipment, including computers. However, they differed from equally large non-fundholding practices, as they had more of the features normally associated with high standards and better quality in general practice (for example, higher rates of childhood immunization and accreditation to provide minor surgery and/or postgraduate training). Therefore, the Audit Commission's work suggests that the fundholding screening process ensured that only larger, well-organized practices were initially allowed into the scheme.

Following the introduction of the 1991 reforms, a number of academics independently examined the effects of the fundholding scheme on GP referrals, prescribing and other activities in NHS general practice. Although they varied in terms of years studied, the number of practices examined and the areas analysed, these studies helped compensate for the absence of a government-sponsored evaluation (or piloting) of the schemes. Although the limited space available here makes a full review of such studies difficult, the papers and reports discussed below suggest that evidence on the desirability and effectiveness of the scheme was both limited and equivocal at the point when fundholding was abolished by the new Labour government in March 1999.

In a review of the available literature, Coulter (1995) concluded that there were 'extensive gaps in current knowledge about the impact of the scheme' and that the claims that 'GP fundholding has resulted in improvements in efficiency, responsiveness and quality of care are in general not supported by the evidence' (p. 233). In a similar vein, Petchey (1995, p. 1139) argued

that 'few reliable conclusions about fundholding, either positive or negative, can be drawn from existing research'. Gosden and Torgenson (1997, p. 103) also concluded that there was a dearth of high quality evidence on many aspects of the fundholding scheme, particularly in relation to referral rates, patient outcomes and service quality. In a review of the scheme's effects on prescribing, Baines *et al.* (1997) found that, in the short-term, many early wave fundholders had managed to secure economies in their prescribing by switching to cheaper, generic drugs. However, in the longer-term, such savings may not have been sustainable. In one of the most recent reviews of the literature, Smith and Wilton (1998) concluded that 'evidence concerning the success or otherwise of general practice fundholding over the last six years is incomplete and mixed' and, unless further research was undertaken, 'the jury will have to remain out on whether fundholding has secured improved efficiency in the delivery of health care' (p. 1253).

Both the Conservative government and the Labour Party had clear public positions on the effect of GP fundholding. Indeed, the position adopted by Labour in opposition was carried through into government. The implication of the review of the evaluations of the reforms is that there was insufficient evidence of the effects of the GP fundholding scheme to draw any reliable conclusions. However, as the issue was heavily politicized, a public position on the effect of the GP fundholding scheme was required from the main political parties and the BMA. A form of folk psychology seems to have motivated these views and ultimately the actions of both the Conservative and Labour governments.

LABOUR GOVERNMENT POLICY AND FUNDHOLDING

Soon after winning the May 1997 general election, the new Labour government suspended entry into the fundholding scheme and began a debate on replacement commissioning models for the NHS (NHSE 1997). After seven months in office, the new administration announced plans, in the White Paper, *The new NHS: Modern, Dependable* (DoH 1997), to replace the Conservative government's reforms in England. In keeping with Labour's pre-election promises, the White Paper stated that, at the end of 1998/99, both the NHS internal market and the fundholding scheme would be abolished. In their place, an integrated care framework would be introduced, which would separate the planning of hospital services from their provision. Under these arrangements, 500 Primary Care Groups (PCGs), each serving a population of approximately 100 000 people, would be established from April 1999 onwards. However, as many of the groups would have little experience of commissioning, planning and managing NHS services, PCGs would initially be given the option of providing advice on commissioning health services to their local health authorities.

Under the new arrangements for the NHS, the Labour government's White Paper announced that each PCG would be allocated a cash-limited budget for hospital and community health services, prescribing and general

practice infrastructure for the patients that they served. The document also stated that, once established, the groups would be expected to sub-divide their allocations amongst local practices in the form of indicative budgets that cover all of the aforementioned services. However, in the short-term, the White Paper announced that 'every practice will have a prescribing budget, as most do now' (DoH 1997, Chapter Five, p. 8). Given the longer-term intention of this plan, it may be argued that practice-level budgets allocated by PCGs will be similar to those assigned under the fundholding scheme. Indeed, *The new NHS* White Paper announced that the 'Government wants to keep what has worked about fundholding, but discard what has not' (DoH 1997, Chapter Five, p. 33). As a result, PCGs may be expected to determine for themselves what aspects of the fundholding scheme should be employed when devising their local, practice-level budget schemes.

Although Labour's plans allowed fundholding to be abolished without, in principle, discarding the effective aspects of the scheme, the absence of a government-sponsored evaluation has meant that conclusive evidence on what aspects of the initiative actually worked was not available to either the government or PCGs. Indeed, little evidence was produced on whether the fundholding budget *itself*, the extra resources given to participating practices, or the difference in property rights assigned to non-fundholding practices determined the outcomes observed amongst the scheme's incumbents. Moreover, it is not clear whether the types of practices that elected to join the scheme influenced its effects, or whether fundholding would have been equally effective amongst all practices. Given the lack of information about the scheme's operation, policy-makers have had to rely on folk psychology in order to decide what aspects of the fundholding scheme should be incorporated into the new practice-level, PCG budget schemes.

Ham (1999) and Webster (1998) have suggested that there has been a change in the style of health care policy-making under the Labour government. It is possible to interpret *The new NHS* as an attempt to re-establish trust with the medical profession. Two aspects stand out, the repeated emphasis on the need for 'co-operation' with the medical profession and, secondly, the commitment that a Labour government would not change the PCG structures for at least 10 years. This commitment to policy stability in the primary care sector is a basic requirement for the re-establishment of trust between the government and the BMA after the turbulence of the 1990s. Alongside this commitment to a policy 'lock-in' is the signal of a more evidence-based approach to policy making. For example, the White Paper states that there will be piloting and a proper evaluation of Primary Care Trusts before their universal application.

However, to build trust takes time (Hindmoor 1998) and other parts of the White Paper are explicit attempts to limit clinical autonomy: for example, the National Institute for Clinical Excellence and the National Performance Frameworks. Further, in the 1999 Labour Party conference, there was an organized message that the government believes that the 'forces of

conservatism' are hindering the modernization of public services and staff in those services and are part of the problem. Such public statements are not propitious for the emergence of trust, as Ham (1999, p. 1491) warns, 'An appeal to altruism of those working in the NHS and recognition of the key role they have to play in delivering the modernisation programme is just as likely to succeed as an attack on their conservatism, and unless this is taken on board then health policy will once again become a battleground between politicians and NHS staff.'

HEALTH CARE POLICY MAKING IN THE 1990s

A health care policy community existed between 1948 and the mid-1980s. This is analogous to the C, C outcome in a repeated PD game between the government and the BMA. Trust between these actors was required to sustain the C, C outcome across time because in any one round there was always an incentive for each side to defect. The trust between the government and the BMA was based on the observance of the two rules of the game. The rules were, first, keeping to an agreed style of policy development and, second, respecting the implicit contract that clinical autonomy was inviolable in return for the financing of the NHS being left as an issue for the government.

Trust between the government and the BMA broke down because of factors on the government side and factors that affected the BMA. There was a Conservative government that wished to impose radical change on the NHS without respecting the first rule of the policy community. This desire emerged from the combination of the financial crisis that developed in the NHS around 1987 and Margaret Thatcher's reaction to the emergence of health as one of the most politically controversial issues. In particular, we can point to her perception that opposition parties were exploiting 'hard cases' (Thatcher 1993). The BMA's response to the funding crisis around 1987 was a public and vitriolic attack on the Conservative government's health care policy.

The relationship between the BMA and the government went from a C, C situation to the outcome of D, D. The introduction of the GP fundholding scheme was politically controversial and, in the absence of a policy community, the Conservative government feared that the medical profession would subvert a public committee's report or any formal evaluative evidence. Thus, the instruments of the policy community for introducing evidence into the policy-making process did not operate nor was there any evaluation of the standard GP fundholding scheme during its lifetime.

The lack of evidence about such a politically controversial aspect of health care policy meant that a folk psychology developed. As has been discussed above, this folk psychology informed the position of the Labour Party in opposition. In 1997, the Labour government decided not to evaluate the effects of GP fundholding but abolished the scheme. *The new NHS* White Paper contained a commitment to policy stability based on the PCGs

and regular formal evaluations. This can be interpreted as an attempt to rebuild trust with the BMA or convert trust developed during its time in opposition into that operating when in government. However the public language of the Labour government might seem to militate against the BMA responding in a positive manner. Therefore, another interpretation of the commitment to evidence-based policy-making in the White Paper is that the Labour government does not fear, as the Conservatives did, that the BMA could or would subvert evaluative evidence for its own political campaign.

The Labour government's actions have raised the question of whether the period 1991 to 1997 was an aberration in the style of health care policy-making in terms of the absence of trust, stability or any kind of evidence in the development of policy. It will be interesting to see if the explicit commitment by the Labour government to co-operate with the medical profession will lead to emergence of some type of stable policy network.

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W W W . B L A C K W E L L P U B . C O M

RATIONAL MANAGEMENT, PERFORMANCE TARGETS AND EXECUTIVE AGENCIES: VIEWS FROM AGENCY CHIEF EXECUTIVES IN NORTHERN IRELAND

NOEL HYNDMAN AND RON EDEN

The way in which central government services are delivered in both Britain and Northern Ireland has changed significantly since 1988. Executive Agencies have been created with the aim of improving the efficiency and effectiveness of service delivery, with changes being supported by an increasing focus on the rational management model as a basis for improving management in the public sector. This paper is a case study of nine agencies within the Northern Ireland 'family of agencies' and is the first study of its type in the UK. It presents the results of a series of interviews with agency Chief Executives that attempted to identify perceptions with respect to the development, use and impact of mission statements, objectives, targets and performance measures (components of a rational management approach). The main findings of the research include: Northern Ireland Chief Executives perceive an increased focus on quantification since agencification; this focus is viewed as helpful in providing a basis for improving management; systems in practice are considered to be much more flexible than a rigid management model would normally suggest; and, it is thought that the potential adverse consequences of such an approach can be managed.

THE NEXT STEPS INITIATIVE AND NORTHERN IRELAND

Since 1988, the way in which UK central government services have been delivered has changed significantly. Following a report by the UK Government's Efficiency Unit (1988), the Next Steps Initiative (NSI) was launched. This resulted in: a separation of policy formulation from service delivery; the creation of Executive Agencies (agencies); and a considerable emphasis being placed on improving and reporting performance. The articulated aim was to deliver services more efficiently and effectively, within available resources, for the benefit of customers, taxpayers and staff (*Next Steps Briefing Note* 1996). In mainland Britain the impact has been considerable, with three agencies having been established by the end of 1988 and 113 agencies by December 1998. Northern Ireland was slower to respond, although here too the impact has been significant. The first agency was created in 1990 and by the end of 1998, 25 agencies were in existence.

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The Northern Ireland Civil Service (NICS) operates separately from the British Civil Service. It is, as Birrell has described (1978, p. 305), 'a unique example of a regional civil service within the UK civil service... and provides the administrative machinery for the province'. Although the NICS does not necessarily have to replicate all civil service reforms introduced in Britain, it is custom and practice for general policies to be largely followed (Loughlin 1992). With respect to the NSI, the reform did not initially extend to Northern Ireland and, as Knox and McHugh (1990) suggest, the NICS, while not pressing to be excluded from the reform, did not rush to implement its recommendations. However, over time the agency model was embraced, albeit in a lagged fashion, by the NICS. Knox and McHugh argue that the Northern Ireland approach to NSI has been 'studiously progressive, learning from the British experience but cognisant of the specific circumstances of size and political sensitivities' (p. 266).

Northern Ireland has a population of 1.6 million. The NICS has some 30 000 civil servants, approximately equalling a medium-sized department in Whitehall. Prior to the creation of a devolved Assembly in 1999 as part of the implementation of the Belfast Agreement, the NICS consisted of six government departments and the Northern Ireland Office (NIO). The first Northern Ireland agency was established in April 1990 (the Training and Employment Agency), with two more following in 1991. This number increased gradually, accelerated in 1996 when 10 agencies were added, and by December 1998 had grown to 25 agencies. Eleven of these came from a single department (the Department of the Environment). At this time, these 25 agencies employed over 19 000 civil servants. On average, a Northern Ireland agency had 771 civil servants, and 14 out of the 25 agencies (56 per cent of the total) had fewer than 300 civil servants. By contrast, the average size of a British agency was approximately 2500, with only 37 out of 113 British agencies (33 per cent) having fewer than 300 civil servants. Overall, 138 agencies were in existence throughout the UK (Northern Ireland and Britain), with over 377 000 civil servants (76 per cent of all civil servants) working in such organizations.

The central theme of performance improvement in NSI led to a greater focusing on targeting, measuring and reporting performance (HM Treasury 1992). With respect to planning and control systems, these changes have often been couched in terms of the efficacy of rational management systems in achieving improvements in performance in the public sector. Regarding external reporting, an increased emphasis has been placed on the use of performance information in discharging accountability. Although articulated in these terms in government publications, little is known of the impact of such changes. More empirical research of the agency sector with regard to these and related matters has been encouraged by a number of writers (Hyndman and Anderson 1997; Rhodes 1997), and the research reported in this paper is a response to this encouragement. The main objective of the paper is to present and discuss the results of a series of semi-

structured interviews with Chief Executives of agencies in Northern Ireland relating to these issues. This is the first study of its type in the UK.

The paper begins with a brief outline of rational management and its linkages to New Public Management (NPM); accountable management and the NSI is presented as a basis for the empirical work that is subsequently reported and discussed. Criticisms of such approaches are also reviewed. This is followed by a review of the findings of recently published research (covering 24 British and Northern Ireland agencies) that identified the extent to which mission statements, objectives and targets are co-ordinated (or linked) in a rational manner (Hyndman and Eden 2000). On the basis of these findings, and in an attempt to explore them further, a series of interviews was conducted with Chief Executives from nine of these agencies (all located in Northern Ireland and not previously reported). These attempted to identify the perceptions of Chief Executives of Northern Ireland agencies with respect to the development, use and impact of mission statements, objectives, targets and performance measures. The results of these interviews are presented, analysed and discussed, and areas for further research are identified.

RATIONAL MANAGEMENT AND NEXT STEPS

The need to plan and control the performance of agencies, with a view to improving performance, has been a major theme of the NSI. The NSI, which can be seen as part of the wider New Public Management movement and the more specific accountable management thrust in government, increased the emphasis on quantification in the public sector, specifically in the context of a highly rational model of management behaviour. Chandler and Plano (1988, p. 127) suggest that the rational management model 'defines the problem, develops alternative solutions, places values on the consequences of various alternatives, assesses the probability that they will occur, and makes a decision based on logical rules'. Significant themes connected to rational management are that strategy should come about by highly systematized forms of planning and that there is a need for specific and quantified targets.

Similar themes are also found in discussions on NPM and, more specifically, in considerations of accountable management. NPM, as Hood (1991) suggests, is a rather loose, yet convenient, term that is shorthand for a set of broadly similar administrative doctrines that dominated the reform agenda in the public sector in many OECD countries from the late 1970s. He identifies the main themes of NPM as being (Hood 1995, p. 95) 'the idea of a shift in emphasis from policy making to management skills, from a stress on process to a stress on output, from orderly hierarchies to an intendedly more competitive basis for providing public services, from fixed to variable pay and from a uniform and inclusive public service to a variant structure with more emphasis on contract provision'. Accountable management can be viewed as an aspect of NPM, and is concerned with the del-

egation to managers of responsibilities and resources related to specific objectives. (For a fuller explanation, see Gray and Jenkins 1993.) Ideas from the rational management literature, analogous to those found in the writings of Drucker (1954) and Argenti (1980), proliferate in many of the UK government publications related to planning and control in the public sector.

With respect to the NSI, this focus on rational planning procedures, accountable management and quantification can be seen in the Efficiency Unit's (1988) report and the many NSI-related publications that followed. An example here is the report recommending the establishment of agencies which stated that (Efficiency Unit 1988, p. 9) these organizations:

need to be given a well defined framework in which to operate, which sets out the policy, the budget, specific targets and the results to be achieved. ... The management of the agency must be held rigorously to account by their department for the results they achieve.

Formal guidance on setting targets and measuring performance in agencies (HM Treasury 1992) also contained many references to ideas contained in the rational management literature. The importance of setting a coherent set of quantifiable targets linked to objectives was highlighted, and it was argued that 'output and performance measures are intrinsic to the whole process of management, including planning, monitoring, evaluation, and public accountability' (p. 4). Similarly, guidance from the Next Steps Team (1995) on strategic management extols the virtues of a rational approach with almost evangelistic zeal.

Although ideas from the rational management model are emphasized in many of the NSI-related documents, such an approach is not accepted without criticism. Indeed, there is a burgeoning literature that seeks to question the efficacy of such 'rational' approaches in the public sector. While a consideration of the detail of this is beyond the scope of this paper, examples follow that help to set this research in context and provide balance. Criticisms of the use of rational management ideas in the public sector are often related to the following: the inability of management (in terms of analytical skills and time) to operate such a model; the tendency to overemphasize quantitative performance measures and disregard the qualitative and strategic elements in decision making; and, the tendency to ignore the political and cultural context in which decision making takes place.

For example, Dearlove (1979) argued that the application of rational management in the public sector is inappropriate because 'goals are complicated, muddled and ill-defined...[and it] is a dangerous illusion to believe that a crisp and effective division of labour can be co-ordinated around the organizational objective' (p. 161). In a similar vein, Gray and Jenkins (1986), in considering accountable management, suggest that although such systems display an attractive logic, they fail to cope with 'the pathological uncertainty and disorder of public sector administration' (p. 179).

Another criticism relates to the way in which such changes have been made and the feasibility of implementing these changes in the public sector at all. Attacks of this nature are sometimes based on evidence illustrating the extreme difficulties of utilizing a tightly coupled planning and control system and the possible dysfunctional consequences that may result (Hopwood 1985; Smith 1993; Mol 1996). Rhodes (1997) explores these potential dysfunctional consequences in some detail when discussing the impact of NPM changes. In particular, the dangers of fragmentation of the public sector, a lack of steering, an undermining of accountability and an erosion of traditional civil service values are examined (pp. 100–11). A related criticism centres on the oft-made assumption of the universality of such an approach. Hood (1991) questions whether changes that are presented as having a general applicability are really 'a public management for all seasons' (p. 8).

Gray and Jenkins (1986) pay particular attention to the issue of a lack of co-ordination. They suggest that there is a contradiction between the call for more proactive strategic policy making and the main emphasis of many of the public sector reforms that stress the control of inputs. In a later paper, they highlight another tension (or contradiction) in the new public sector (Gray and Jenkins, 1993). This relates to the creation of differing codes of accountability, possibly through the break-up of parts of the public sector into quasi-autonomous units and the creation of agency-type contracts which specify outputs or outcomes, and the potential this has to undermine the benefits of an integrated public sector. Some of what is presented later in this paper could be viewed within the broad framework of agency theory, although the authors do not seek to overtly analyse the results from this research within such a framework. Nevertheless, agency theory may provide interesting insights. (For a discussion on agency theory and its application to not-for-profit organizations see Collier 2000; Ijiri 1975 and Laughlin 1990.)

THE CO-ORDINATION OF MISSION, OBJECTIVES AND TARGETS

Hyndman and Eden (2000) attempted to identify the degree to which the mission statements, objectives and targets in the corporate and business plans of agencies are consistent, complete and co-ordinated. The business plans and corporate plans of 24 agencies (48 documents) were analysed to identify: the mission (a generalized statement of the organizational purpose, or a statement of the long-term focus of the organization) of the agency; objectives (statements of intended output in broad terms, not quantified and not time bound); and, targets (quantified, time-bounded objectives). The targets were further sub-divided into key-targets and non-key-targets. The information was then 'mapped' to establish links between the various levels.

The researchers argued that if a highly rational management approach is being used: (1) objectives would be clearly linked to a mission statement;

(2) each objective would have a number of key targets; and (3) each key target would spawn a number of linked operational targets. Furthermore, all objectives would have targets and no targets would be unrelated to objectives. Their results indicate that such tightly coupled systems are not the norm in the agency sector. For example, approximately 44 per cent of the objectives contained in the corporate plans had no related targets, and 23 per cent of the targets in the business plans could not be related to objectives. It was suggested that this lack of linkage indicates a possible weakness. For example, if targets are set for activities that are unrelated to objectives, then it is likely that these activities will be emphasized and supported whether or not they further the overall mission of the agency.

However, the authors also suggested that the extent of the weaknesses identified should not be exaggerated. When compared with previous studies in other sectors, the results in the study show much greater degrees of linkage. For example, over 80 per cent of all targets could be related to objectives. In the case of key targets, the degree of linkage was even greater. Such figures are extremely high when compared to the findings of Brace, Elkin, Robinson and Steinberg (1980) and Thompson (1995) in public sector studies outside the UK. For example, Thompson's study, which involved an analysis of the contents of 11 New Zealand local authority reports, found that in 'ten of the 11 reports surveyed no attempt was made to show which performance indicators related to which higher goals of the organization' (p. 342).

METHOD

To obtain a more in-depth understanding of the research reported above (Hyndman and Eden 2000), interviews were conducted in nine agencies. These focused on the development, use and impact of mission statements, objectives and targets. Moreover, some of the possible adverse consequences and difficulties of developing and using such systems were explored. Chief Executives of agencies were interviewed to identify their perceptions with respect to these issues. This group was chosen because of its seniority, assumed detailed knowledge of the issues and its ability to provide an overview of the entire operation of the agency. Given the difficulties of gaining access to Chief Executives (which were considerable), the potential sensitivities of the matters being discussed and the desire for them to be as candid as possible, Chief Executives were informed (prior to agreeing to be interviewed) that: interviews would be reported in a manner where specific statements could not be attributed to particular individuals; and, there would be no contact made with the parent department regarding the research. It was considered that such assurances were necessary to increase both the number of participants and the quality of participation.

The agencies selected for the interview survey were taken from those that had provided documents for the research reported above (Hyndman and Eden 2000). Furthermore, because of the constraints of travel, time and

finance, agencies were selected that were reasonably accessible to the researchers (all were located in Northern Ireland). As highlighted earlier, the NICS is an example of a separate regional civil service and did not have to adopt the agency model (although custom and practice encourages such adoption). This research therefore constitutes a case study within the wider UK agency sector. The interviews were conducted at the agencies' headquarters and this provided the researchers with an opportunity to gather additional information on the nature of the agency and its operations. A semi-structured interview approach, with the use of an interview guide, was utilized (a copy of the interview guide is available from the authors on request), and the interview length ranged from two-and-a-half hours to four hours. Two researchers conducted the interviews and all interviewees allowed their interviews to be recorded on tape. To ensure accuracy and comprehension of the interview data at the analysis stage, the tapes were transcribed immediately. Moreover, notes were taken during the interview.

RESULTS

The interviews were semi-structured. The background of the Chief Executives and their awareness of the main terms used in the questioning were established. Four of the respondents had worked in the same function (which was now an agency) before and after agencification. The other five Chief Executives joined their agencies after they had been set up. Previously, they had all worked in other parts of the public sector. Their periods of service in their present agencies (including service in the same function before agencification) ranged from 31 years to one year. It was clear, from both questioning and discussion, that they were all well aware of the terms mission statement, objective, target and performance measure. With respect to their degree of involvement, either directly or indirectly, in the development of mission statements, objectives, targets and performance measures in the agency, all of the Chief Executives described themselves as being 'very involved'.

The remaining questions sought to establish, in broad terms, the perceptions of Chief Executives with respect to:

- the process of developing mission statement, objectives and targets and the extent to which the importance of this has changed since agencification;
- the use of targets;
- the importance of different types of target;
- the benefits of the rational approach with its emphasis on quantification;
- the drawbacks of the rational approach with its emphasis on quantification.

Process of developing mission statement, objectives and targets and the extent to which the importance of this has changed since agencification

Questions here focused on the process by which mission statements, objectives, targets and performance measures are developed and the extent to

which the importance of this has changed since agencification. The NSI emphasizes the significance of mission statements, objectives and targets and the need for these to be co-ordinated (Next Steps Team 1995). Furthermore, it has been argued that targets should reflect the concerns of all stakeholders and be 'stretching' (HM Government 1997).

With respect to the extent to which the importance of mission statements, objectives, targets and performance measures had changed since agencification, there appeared to be two distinct types of response. Five Chief Executives indicated that the change was not dramatic because the agency had been on this road prior to agencification, sometimes as a result of other (largely complementary) initiatives. However, each of these agencies indicated that the process had been honed and intensified since (or perhaps because of) agencification. A typical example of such a response was:

Before we became an agency we were not into measurement to the same extent but always had a culture of serving the public. There was a culture change – complete process reengineering started in 1990, leading to an integrated computer system and the necessity for quantification and precise specification of data and terms. Executive agency status fitted into the new mental attitude.

The other four respondents saw the impact of agencification as being more pronounced and bringing about a major change in focus and management. Typical of observations made by these Chief Executives was:

the agency has become target focused and these targets relate directly to customer service. Some are measured on a daily basis to assist in the deployment of staff. There has gradually been a tightening of targets and the staff have become more conscious of them.

A number of questions were asked to identify the way in which mission statements, objectives and targets were developed, and the influence of various stakeholders in such processes. A rigid rational management approach suggests a largely top-down process where mission is developed prior to drafting objectives and targets. Two main types of response were identified with respect to the way in which the mission statement was developed. Five of the nine Chief Executives interviewed described a process which involved both 'internal' (for example, the parent department and the agency) and 'external' parties (for example, 'customers' or a consultative group). The degree of involvement of each of these groups varied. With respect to the other four agencies, a process which relied much more heavily on the parent department and the agency was described. Little reference was made to other parties. In all nine cases the influence of the agency itself was viewed as dominant. The importance of the 'Fraser figure' in the parent department was mentioned on a number of occasions as being a welcome and useful point of contact. A 'Fraser figure' is an individual within the parent department who is a focal contact point for the agency.

The role of the 'Fraser figure' is, among other things (Next Steps Team 1995, p. 7) 'to challenge the performance of the Chief Executive of the agency and support and facilitate the Chief Executive's work in relation to his/her objectives and future targets'.

Respondents were asked to explain the order in which mission statements, objectives and targets were developed. From the rational management literature, a sequential process commencing with the formulation of a mission statement and then proceeding to objectives and targets, is typical. In seven of the nine agencies this sequence was described, with varying terms being used. However, it was clear that in all of these instances the sequencing was not rigid and in most cases the Chief Executive viewed the process as being iterative. Examples of comments with respect to this are:

Mission statement, objectives and targets in that order. ... There may have been a little reverse tweaking.

All were developed at approximately the same time but in the order aims, objectives and then targets. ... However, some of the targets have led to the objectives and the aims being revisited.

In the two other cases, a more 'bottom-up' approach was described. Here the focus was initially lower down in the organization (at division or core activity level) and then built up to objectives and mission statement. In one case it was stated that the targets were considered prior to the formulation of the mission and objectives, whereas in the other the initial focus was on 'core activities' prior to the formulation of mission statement and objectives. As in the other seven agencies, the interviewers developed an impression of a fairly flexible and iterative approach.

Questions were asked regarding whether all objectives would have targets and whether targets could be set that were unrelated to objectives. With a strict interpretation of the rational management model one would expect all objectives to have targets and all targets to be capable of being linked to objectives. The evidence from the interviews suggested that the majority of Chief Executives perceived problems in identifying targets for all objectives, although it was often stated that attempts were made to measure where measurement was possible and appropriate. Some comments regarding the possibility that certain objectives may have no targets were:

Sometimes it is difficult to measure success in as specific a way as the textbook would suggest. There are some very important objectives which are difficult to measure.

Targets have been established for most areas but the third aim [the agency's advisory role] is more difficult to measure.

In some cases it was noted that even if there is no published target relating to a particular objective there may be 'internal targets' (presumably not included in the corporate and business plans). With respect to the possi-

bility of a target being developed that was unrelated to an objective, the vast majority of Chief Executives perceived that this would not happen because of the review process regarding targets (although little evidence was provided of a deliberate attempt formally to review the links between objectives and targets).

A related question dealt with whether important aspects of performance of the agency were not capable of being captured within objectives and targets and measured through quantitative performance measures. Seven of the Chief Executives perceived that all important aspects of the agency could be captured within such a taxonomy, although three qualified this with respect to advisory and policy issues (particularly those relating to the role of the Chief Executive). Furthermore, a few specifically mentioned that while difficulties had existed earlier with respect to this issue, these had been overcome. Two of the Chief Executives – while explaining that most important aspects of performance had targets and performance measures – suggested that possibly this was not the case with all areas. Specific comments relating to this were:

it is such a big business that it is bound to be difficult to measure everything.

Independence and objectivity, which are cornerstones of the service provided, are difficult to fit into this scheme. These areas are judged rather than measured.

A question relating to the extent to which targets were 'stretching' was asked. A common theme in the NSI literature is that targets should be set at levels above previous years' performance (for example, HM Government 1997). All of the Chief Executives were of the opinion that there was always an attempt to provide stretching targets for their agency and there had never, to their knowledge, been any bid to set easy targets in order to demonstrate 'success'. Many provided impressive examples of, with the same dimension of performance being used, targets becoming much tighter over time and actual performance moving in the same direction as the target (on the face of it suggesting significantly improving performance). The use of British benchmarks (in the case of some agencies), Ministerial Advisory Boards, Fraser figures and parent department scrutinies were all identified as influences encouraging the setting of demanding targets. The idea that the culture in the agency was such that stretching targets were the norm was mentioned by a number of respondents. It was also suggested that too much success in meeting targets might indicate a lack of ambition in setting the targets at high enough levels. Comments regarding this latter point were:

The agency accepts the discipline that a good target is one which there is a 70 per cent chance of achieving. The agency's corporate personality is one of discipline.

Sometimes we fail to achieve our targets. ... I would be suspicious of any agency which always meets its targets.

Use of targets

A number of questions were asked in order to establish the way in which targets were used within the agency as part of the feedback control process and their use in reporting to the parent department. Moreover, the perceived consequences of missing targets were explored. The NSI literature articulates the importance of both feedback control (utilizing performance targets) within the agency (an aspect of improving managerial information as the basis for improving performance) and the need to report to the parent department (an aspect of accountability and hands-off control mechanisms). Each of these factors is viewed as essential (HM Treasury 1992; Next Steps Team 1995).

With respect to the way in which targets were used within the agency as part of the feedback control process, all of the Chief Executives emphasized the importance of such mechanisms in reporting to the management board (if one existed), to senior managers and to employees. The enthusiasm with which a number of the Chief Executives explained their particular procedures was notable and a variety of reports and charts were produced to illustrate their explanations. The overwhelming impression gained by the researchers was that this use of targets was viewed by the Chief Executives as extremely valuable in communicating to individuals, gaining commitment to the mission and improving the focus of individual teams within the organization. These were all perceived as contributing to the improvement of management within the agency. All of the agencies used monthly, or four-weekly, reporting periods, although it was noted in a few cases that it was difficult, because of management information system problems, to have exact actual performance figures each month. A typical comment was:

Actual performance is reviewed at monthly management board meetings. Data is also collected on a weekly basis and used daily by operational managers and supervisors to make decisions on staffing etc. ... Reports which compare actual performance with targets are very actively used management tools in this organization.

With respect to reporting on achievement of targets to the parent department, in general all agencies routinely reported on a quarterly basis. When questioned about the consequences, within the agency and with respect to the parent department, of missing targets, all of the Chief Executives described fairly flexible approaches, albeit flexible to differing degrees. There was little evidence of a widespread 'target-constrained' style of evaluation by the agency on its employees or by the parent departments on their agencies. However, one Chief Executive highlighted the case that with some requirements of the parent department (the keeping within financial budget and the introduction of policy initiatives) there was no room for failure. Many of the Chief Executives distinguished between failure

through lack of performance (something that would not be tolerated) and failure through changed circumstances or unrealistically optimistic targets (something that would be tolerated). Evidence of the opportunity to discuss and explain any missed targets was provided. In two agencies, reference to staff bonus implications of missed targets was made. In these cases, it was stated that a bonus might be paid even if targets were missed but a reasonable and acceptable explanation was provided. An example of the comments made was:

If it is realised that targets were not attainable, or if the resource position has changed, then that is taken into account. However, if the target is missed because individuals are not doing their jobs, then that has serious repercussions. ... The Chief Executive is...answerable to the minister who challenges when targets are missed. However, the minister is reasonable and takes explanations into account. ... The system will accommodate unforeseens – it will not accommodate failure because of lack of performance.

Importance of different types of target

HM Treasury (1992) recommended that targets be developed under four main headings: financial targets (for example, live within budget; sales revenue generated); volume targets (for example, number of cases handled); efficiency targets (for example, cost per vehicle tested; cases handled per employee); and, quality targets (for example, waiting time; error rate). It was argued that in most cases it would be appropriate for each agency to develop some targets under each heading. Furthermore, it was suggested that such targets can provide an important aspect of the reporting of performance through the medium of the annual report. However, Hyndman and Anderson (1998) contended that different groups attach varying levels of importance to different types of target. Questions were asked regarding the importance of different types of target (from the agency management perspective, the parent department's perspective and the public's or customers' perspective) and the use of such targets in external reporting.

With respect to the importance of different types of target to different stakeholders, clear patterns emerged. In eight out of the nine agencies the Chief Executive perceived quality targets as the most important type of target from a customer/public perspective. In one of these eight cases it was perceived as being of equal importance to price (where the agency was charging for the service). With respect to the parent department, Chief Executives perceived financial issues (often, keeping within budget) as the most important (with seven of the agencies stating that these were the most important or equal most important), although other types of targets were mentioned as important. In two of these cases the financial targets were viewed as constraints within which the agency had to operate. The most frequent reply regarding the importance to the agency itself was that all targets were important (five respondents). Often an explanation of the inter-

relationships between the various target types was offered, for example, higher volume allowed unit costs to be reduced. In one case it was suggested that because the parent department viewed certain financial targets as essential then it was inevitable that the agency would prioritize the same targets. Typical examples of statements made by the Chief Executives were:

- (i) Perceived importance to parent department: 'They are only really worried if the financial target is missed. If you overspent it would be an horrendous crime.'
- (ii) Perceived importance to customer/public: 'Quality is of paramount importance to the public.'
- (iii) Perceived importance to the agency: 'All are important and inter-linked – quality and efficiency within a properly run organization lead into financial returns.'

All of the Chief Executives stated that targets were used as a basis for reporting in annual reports, although several highlighted the fact that generally only performance against key targets was reported. Three of the nine Chief Executives, while acknowledging the use of targets in this manner, suggested that the external readership of the annual report was limited. One of the Chief Executives, while recognizing the accountability function of such reporting, viewed the annual report more in terms of a public relations document.

Benefits of the rational approach with its emphasis on quantification

Questions were asked to identify the perceived benefits of a rational approach that emphasizes mission statement, objectives, targets and performance measures and whether, overall, it has led to an improvement in performance. The overall objective of the NSI is to deliver better quality central government services for the benefit of taxpayers, customers and staff (*Next Steps Briefing Note* 1996). One of the questions specifically focused on whether such a rational approach had achieved this objective. Furthermore, the perceptions of the twin objectives of improving management and providing greater accountability (as identified by HM Treasury 1992) were explored.

Overwhelmingly, the most frequently expressed benefit was related to the sense of focus that such an approach provided, and this was highlighted in all nine agencies. A number of Chief Executives expanded at length and with enthusiasm regarding this perceived improvement. Other benefits mentioned included: the provision of a means of control; the visibility that the approach gives, thus enabling a more questioning approach to be adopted; the opportunity to rethink the structure of the service and relate it to objectives and targets; and, the ability of individuals and units to identify more directly with the activities in the agency. Typical comments were:

The agency knows exactly what it has got to achieve – overall, in divisions and lower down...[having targets] sets a sense of purpose, direction, pride and achievement...[and] provides a control mechanism.

It gives people inside the organization a greater sense of direction and therefore achievement. It also ensures a better service to the clients/customers/stakeholders.

The majority of Chief Executives perceived the twin objectives of improving management and providing greater accountability as equally important, with five of the nine respondents suggesting this. A natural linkage between improving management and greater accountability was identified by these Chief Executives. One commented, 'Both are important ... management and accountability are indivisible.' Of the remaining four, they were equally split regarding the paramountcy of improving management and greater accountability. In each of these cases the important linkage with the other objective was acknowledged. For example, a well developed and co-ordinated set of objectives and targets to facilitate better management (which may have been viewed as of primary importance) was seen as providing a good basis for the discharge of accountability.

All of the respondents perceived that a focusing on mission, objectives, targets and performance measures had improved the performance of the agency for all stakeholders. It was argued that the agency management, the sponsoring department (or minister) and the customer or general public were each benefiting. One of the respondents was of the opinion that perhaps the customer (or general public) was unaware of any improvement or of the extent of the improvement. As in the case of responses to a previous question regarding the degree of 'stretch', impressive examples were provided of how performance had improved over time since agencification. However, one Chief Executive suggested that performance would have improved anyway in his agency (due to changed working practices and improvements in technology), although perhaps not to the same extent. Examples of customer surveys and procedures for monitoring and dealing with customer complaints were provided as evidence of improving performance from a customer perspective and various statements were made to highlight increasing satisfaction from a sponsoring department's perspective.

Drawbacks of the rational approach with its emphasis on quantification

The rational approach, with its emphasis on quantification and clear means-ends relationships, is not necessarily without problems and the potential dysfunctional effects were discussed earlier in the paper. Questions were asked to explore these issues and identify the extent of Chief Executives' perceptions of the drawbacks of the rational approach.

While three of the Chief Executives considered there were no drawbacks from a management approach that emphasizes mission, objectives, targets and performance measures, the other six respondents identified a number

of problems. Although a range of different terms were used, the two most frequently identified issues related to the poor implementation of the system originally (something mentioned four times) and the tendency to over-emphasize numbers at the expense of judgement (something mentioned three times). With respect to the first of these, two of the respondents mentioned that once implemented there was a need to 'learn' and change the system to make it more appropriate. Regarding the overemphasis on numbers, Chief Executives highlighted such matters as a skewed focus and a tendency to 'dehumanize' the organization. In these cases, the need to manage the situation so as to avoid adverse consequences was stressed. Examples of comments made were:

We have had no drawbacks – it has worked well and will work well for organizations which are producing some form of quantifiable output.

There is a danger that if your mission statement, aims, objectives and targets are not well thought out and well aligned that the thing is skewed and something is neglected that shouldn't be neglected. ... When this happens there is a need to review in a holistic way.

There is the danger that the human aspect may be overlooked if there is too great a focus on targets.

Related to the above, a question was asked with respect to whether the pursuit of targets could lead to inappropriate decisions or behaviour in the agency. The majority of Chief Executives (six) identified potentially inappropriate behaviour from a focusing on targets, but the general sense gained by the interviewers was that if this arose then the focus would be adjusted. Four of the respondents identified particular tensions between such factors as speed and quality, or long term and short term. Yet throughout the interviews the impression was given of a flexible approach with management managing the situation as information became available. Examples of this were:

It could be argued that inappropriate behaviour occurred as a result of speed targets – it was perhaps inevitable that quality would suffer in the medium term. ... Once this was realised by management we tried to move from speed to quality targets. ... But it was a 'difficult ship to turn around' once the speed culture had been established, even though the staff knew that the speed culture didn't make sense.

Sometimes calculated risks may be required to ensure achievement of targets. ... At certain times of year the standard 1 in 10 check may be reduced to 1 in 50 to ensure that timeliness targets are met.

Both Thompson (1995) and Sharifi and Bovaird (1995) have suggested that if rational systems are imposed on organizations, the organizational response may be little more than 'ritualistic' with no real commitment to

the cause. The final question related to whether such was the case with agencies. All of the respondents stated that this was not the response of the agency, although one acknowledged that at the lower levels in the organization there was potential for this. Another stated that there was the possibility of this in the early days of such systems but 'after a certain phase, a real commitment takes over and the focus moves towards customers'.

ANALYSIS AND DISCUSSION OF RESULTS

The research reported in this paper represents a case study of nine Northern Ireland agencies within the wider UK agency sector. Perceptions of Chief Executives of these agencies were identified with respect to the development, use and impact of mission statements, objectives, targets and performance measures – the first study of its type in the UK. The research sought to obtain a more in-depth understanding of the issues raised by Hyndman and Eden (2000) who attempted to discover the degree to which the mission statements, objectives and targets in the corporate and business plans of agencies are consistent, complete and co-ordinated. The main finding of the Hyndman and Eden research was that although significant gaps exist, the planning documents of executive agencies appear to be more co-ordinated in terms of their use of objectives and targets than was evident in earlier research in other parts of the public sector.

The interviews provide evidence that a neat sequential model, as typified by the rational management approach, is not generally used in the management of Northern Ireland agencies. The results reported here, together with the findings of Hyndman and Eden (2000), show that a degree of rationality exists (as evidenced by conventional planning documents and processes and formalized targets); however, a fair degree of flexibility is evidenced. This suggests that there is no 'one size fits all' rigid rational management model that is applied to all agencies.

The interviews provided evidence of fairly flexible controls from the centre in many respects. However, regarding financial controls, it was clear that these were tight, reflecting the fact that, in the NICS, the Department of Finance and Personnel (DFP) keeps a firm control on budgets, pay and personnel. It may be the case that these controls are tighter in Northern Ireland than in Britain, possibly caused by the smaller scale of operations in Northern Ireland. When considering differences between the British Civil Service and the NICS, it has been suggested that these may 'stem mainly from the smaller size of the NICS and the advantages of centralizing certain functions' (DFP 1984, p. 7). Yet the conclusions of Karbhari and Pendlebury (1997), in their research relating to British agencies, found a similar pattern. While financial controls from the centre were fairly tight, they found a participative approach to the management of agencies and managers with much more freedom to control their activities since agencification.

Overall, systems more akin to what Quinn (1980) describes as logical

incrementalism were described by the Chief Executives. In such models it is realized that all options cannot be identified and analysed (as suggested by rational management models). Rather, decisions emerge through a constant process of analysis, re-analysis and modification throughout the development and implementation of a strategy in order to keep in line with the environment. This represents the deliberate development of strategy by 'learning through doing'. This concept was particularly evident with respect to replies to a question relating to the importance of mission statements, objectives, targets and performance measures since agencification. A number of respondents highlighted the evolving nature of the systems and targets as learning took place.

The Chief Executives perceived that the importance of mission statements, objectives, targets and performance measures had changed since agencification, although to varying extents in different agencies. There are a number of possible reasons for such variation. The agencies vary significantly in terms of size and function. Smaller organizations may not have been able to justify, on financial grounds, the development of complex target-based measurement and management systems without some outside 'persuasion'. In some of the agencies, particularly those where greater difficulty exists in targeting and measuring output because of the non-routine nature of their activity, a reluctance to develop such systems was possibly caused by the technical difficulties or the belief that poorly constructed systems might undermine the ethos of the organization. It is clear however that some of the Northern Ireland agencies had moved quite a way towards models of management emphasizing mission statements, objectives, targets and performance measurement prior to agencification.

The agencification programme forced all of these organizations to adopt similar patterns with respect to quantification and management systems relying on quantification. However, regardless of the extent to which such an approach was embraced before agencification, the interviews suggested that changes since agencification had brought significant benefits, with the sense of increased focus being the most frequently quoted. Furthermore, all of the Chief Executives believed that this had resulted in benefits to the agency itself, the parent department and the customer. Again, these findings are in line with Karbhari and Pendlebury (1997), where the question of whether the underlying belief behind the creation of agencies in the UK (that is, that giving managers significant freedom to manage their agency would lead to the provision of more effective and efficient services) had been delivered by the NSI programme. Karbhari and Pendlebury's findings suggested that senior managers did perceive that as a result of the agency programme they had more freedom and control of their activities, and perhaps more importantly, they were providing a more effective service and giving increased value for money.

With respect to the perceived drawbacks, the majority of Chief Executives were aware of difficulties that had arisen or could arise from an approach

that emphasizes mission statements, objectives, targets and performance measures. There was no impression given of insurmountable adverse consequences, but rather a sense that as problems arose these had to be managed and that as new systems were introduced they may have to be adjusted, particularly at the early stages, to make them appropriate. This contrasts with the evidence provided by other researchers (examples being Hopwood 1985; Smith 1993; Mol 1996) who illustrate the extreme difficulties of utilizing a tightly coupled planning and control system and highlight the dysfunctional consequences. Perhaps the different findings in this research, and in Hyndman and Eden's (2000) research, result from the different organizational form studied, agencies possibly being less complex and more focused than many other public sector organizations. Conceivably, the degree of 'tightness' in the coupling of the planning and control systems of agencies is less than in other organizations and this may reduce potential dysfunctional consequences.

No evidence was found to support the suggestion by Sharifi and Bovaird (1995) that the use of a more rational approach may lead to a 'lip-service', or ritualistic, response by organizations. Chief Executives largely dismissed this suggestion and considerable 'commitment to the cause' was demonstrated (although it should be noted that there is no evidence here that all managers in agencies have similar perceptions). The degree of flexibility with which systems were developed and operated may have been a contributing factor to this response.

The research included in this paper complements other recent studies of the agency sector. It focuses on the perceptions of Chief Executives in agencies operating in Northern Ireland. As such, it is a case study within the wider UK agency sector and therefore any generalizing of the conclusions beyond the Northern Ireland context should be undertaken with care. However, although the average size of Northern Ireland agencies is relatively small compared with British agencies, there are significant similarities between the modes of operation of all agencies in the UK. Furthermore, a number of the agencies in Northern Ireland are examples of directly comparable agencies operating in Britain, albeit on a larger scale. Moreover, the issues of targeting and quantification are common to all agencies, as is the guidance provided to support such activities.

Further research is needed to understand better the impact that rational analysis and performance reporting has had and can have on the management of, and external reporting by, agencies. There are a number of other potential research areas that could be explored relating to this work. The work could be complemented by interviews of Chief Executives of agencies in Britain. Surveys of the views of the managers of parent departments (or the Fraser figure), managers within the agency (other than Chief Executives), users of the service and other stakeholders could be undertaken. The results of these might give a richer understanding of the changes that have taken place and help to ascertain the appropriateness of the objec-

tives, targets and performance measures used. The importance of the recognition of context in the operation of planning and control systems has been alluded to in this paper. A larger number of interviews, allowing a disaggregation of the data into areas of service activity, or size of organization, within the wider agency sector, may provide a better understanding of this and encourage the development of more appropriate, customized systems. Furthermore, this might also allow studies of the possible impact of alternative financing arrangements on the management and reporting systems of agencies to be undertaken. The issues investigated in this paper, and many of the identified potential research areas, have relevance to other public sector organizations and the wider not-for-profit sector. Studies, possibly of a comparative nature, in other parts of the UK public sector, or in the public sectors of other countries (especially those that have embraced NPM), or in other not-for-profit organizations, would aid understanding.

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MODERNIZATION AND CHANGE IN SOCIAL HOUSING: THE CASE FOR AN ORGANIZATIONAL PERSPECTIVE

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It is argued that past approaches to the research of housing policy and housing organizations are now inadequate and unable to provide a clear explanation of modernization and change. The modernization of social housing is associated with changing core organizational competencies and the movement towards a variety of partnership approaches. In response we develop a tripartite theoretical framework based around new institutional economics, strategic management and institutional theory. An exploratory review of the evidence at a sectoral level (examining social housing as a field, regulation and the profession) and the organizational level (focusing upon changing organization behaviour) is used to illustrate the legitimacy of this approach. In conclusion a research agenda is outlined.

INTRODUCTION

There has been much debate within different professional and academic fields about the nature of the institutional and organizational changes associated with the modernization project, both prior to and since the election of the first Blair government in 1997 (Blair 1997; Giddens 1998). Earlier commentators have focused on the 'rolling back of the state' associated with Conservative government policies, and which is seen to have constituted an irreversible diminution of the role of public sector institutions overall (Hood 1991; Rhodes 1994). Others set out how the 'mixed economy of provision' presented an opportunity for the public sector to extend local and sectoral hegemony through regulatory regimes and other forms of structured influence (Greer and Hoggett 1999). Other work has looked at changes in governance and social co-ordination at local, sectoral and corporate levels, and the relationship between policy co-ordination and different modes of governance (Thompson *et al.* 1993).

Modernization is a contested theoretical term. The idea of modernization which underpins the present government's 'modernization agenda' focuses on the need to foster an ongoing appetite at institutional and organizational level to modernize in order to maintain or create competitive or collaborative advantage, or justify maintained public investment levels. In this context, modernization implies progress towards improved efficiency. It is not

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the intention in this paper to explore the deeper theoretical roots of the modernization concept. Rather the aim of this paper is to highlight the deficiencies in research associated with the traditional public administration approaches of central-local relations and principal:agent theory within the context of social housing. We argue the need for a theoretical refocusing around a tripartite framework which draws upon new institutional economics, strategic management and institutional theory. An important facet of our approach is that it takes into account the modernization of social housing and the uncertainties and contingencies which define organizations' behaviour and structure their interactions with their operational environment at the organizational, local and sectoral levels. The paper does not aim to come to definitive conclusions but to offer an exploration of this theoretical framework within the social housing sector in England and Wales.

In developing this approach to the research of housing we initially provide further evidence of our understanding of the term modernization. In the second section we provide a critique of past research traditions and illustrate their limitations. The next section presents our tripartite theoretical perspective, firstly exploring governance theory from a new institutional economics perspective. Here we review the way in which organizational activity is structured at different levels by the relationships between different actors and agencies involved. Second, social housing's 'strategic role' is discussed to further demonstrate the changing management context, meanings and practices. Central in these two perspectives is the role of inter-organizational relationships. Third we examine the ways in which institutional theory can explain organizational behaviour at the sectoral level. After this theoretical discussion the section that follows explores these ideas in three arenas to illustrate our case. At the sectoral level we initially examine the role and operation of regulation and regulatory mechanisms to illustrate how regulation has been developed and to indicate the increasing complexity of social housing provision. Second, the limited success of the 'professional project' in social housing is considered to again portray at the sectoral level how the profession has struggled to cope with the new 'modern' agenda. Third, the focus shifts to changing patterns in the wider behaviour exhibited at the organizational level. Having reviewed these areas, the paper concludes by suggesting how this approach to analysing organizational change might offer new perspectives on modernization and change in social housing and it offers a research agenda.

MODERNIZATION, POLICY CHANGE AND PAST RESEARCH IN SOCIAL HOUSING

The modernization of social housing

The modernization of social housing has been driven by a number of factors and is expressed through three facets. First has been the redefinition of social housing organizations' 'core' roles and responsibilities, and their

redistribution between different organizations. Local authorities, and on occasion housing associations, until relatively recently have been seen in terms of the direct public sector response to meeting national housing needs and providing housing for the poorest and most vulnerable. These organizations to all intents and purposes were (traditionally) responsible for directly providing, distributing, and managing a publicly funded and provided housing stock. By the end of the 1980s, this almost universally accepted precept of direct public sector provision gradually became dislodged, partly as a by-product of privatization policy, and the search for 'private sector solutions'. Associated with this change in orientation came first, increasing use of private sector funds as against a shrinking public sector commitment; second, a shift in the financial burden away from production and capital subsidies towards consumption and personal subsidies; and, third, organizational and cultural changes resulting from cross-sectoral partnerships and a progressive redefinition of what was understood as the 'social housing product'. The move away from direct provision has meant that the 'social' dimension of social housing has come to be less associated with the inevitability of public sector funding and public sector management. Instead, it centres more on the social purposes which underpin provision, and the 'social' characteristics of different patterns of use and management. The traditional model of the single social housing organization, typically a local authority or publicly funded housing association, as direct provider, distributor and manager, along with the assumption that all of these roles automatically belong together has quickly given way to a widening range of diverse organizational arrangements.

A second facet of modernization in social housing centres on the steps being taken by social housing organizations to structure their operational environment through the use of broadly defined partnership arrangements. Different organizations have embraced the notion of partnership to differing degrees, and there is a wide variety of organization governance practice emerging at local, sectoral and project levels. Partnerships and collaborative relationships are built up in many different ways. First, they may be formed on the basis of external decentralization or out-sourcing, both enforced, as was the case with compulsory competitive tendering (CCT); second, by initiatives to involve service users, such as those linked to the Conservative government's Citizens Charter initiative, and now to the Best Value regime and the Tenants Compact; and third, in a range of other forms of collaboration which characterize the 'new public management' (Ferlie *et al.* 1996). Across the social housing sector, organizational responses to partnership working have been both sophisticated and far more diverse than are generally imagined. The emergence of coalitions and alliances, the creation of subsidiaries and arms-length agencies, preferred partner arrangements, networking with specialist providers, and the development of inter-organizational project teams – all of which may involve groups rather than pairs of organizations – are indicative of the range and

complexity of these organizational responses to their changing environment (Reid 1999). Indeed, such changes have promoted a major debate in the housing association sector about the nature of the regulatory regime which attempts to monitor their complex behaviour (see pp. 610–14, below).

A third facet of modernization has involved extensive 'boundary-spanning' activities across traditional public service sector boundaries, for example, between housing, health and employment. Such activities, often referred to within the social housing field as 'housing plus', have had and continue to have significant impacts on management practice, raising particular issues around professional and operational 'overlap'. On the one hand, cross-professional and inter-organizational working has challenged accepted notions of professional 'closure', particularly within the professionally defined area of practice which constitutes 'housing management'. On the other, more generic forms of managerialism and strategic management have come to be seen as key to organizational effectiveness in an environment which necessitates more risk-taking and entrepreneurialism. As a consequence, managers within social housing organizations and the management which they 'do' has begun to be seen less in terms of specific competencies, such as those recognized in Chartered Institute of Housing (CIH) professional qualifications, and more in terms of the need to have at an organization's disposal an eclectic mix of techniques and methods. These are often competence-based, but reflect a much wider range of disciplines, management fields and models than do traditional CIH definitions of competencies. For example, one London-based housing association recently re-engineered its housing management, repairs and public contact functions into a new customer services function using call centre technology and wider service sector competencies. Not only did a significant proportion of existing staff fail to meet the required competencies, but the association also found it hard to recruit for those competencies through advertising in the traditional housing jobs media. This flexibility places particular emphasis on 'creative management' as a kind of modernization of organizational practice which in turn is seen as fuelling organizational change and securing competitive advantage through the innovation capacity which creative management is seen to bring.

Past research

We cannot however understand these changes without close attention to their extent, content, implications and impact. Close scrutiny of the way in which social housing organizations have 'modernized' over the years has been underplayed in most housing policy and practice research. Research in the housing policy field has instead tended to be dominated by the central-local relations and the public administration paradigms, and the associated 'principal:agent' mode of analysis (Hughes 1994). Where the notion of modernization has been discussed at all in relation to housing, the focus has been on tenure restructuring and the ascendancy of home ownership rather

than on issues of interorganizational relations (Malpass and Murie 1990 and subsequent editions; Malpass 1999; Harloe 1995). The 'central-local relations' and public administration paradigms draw on the post-war model of a hierarchically regulated public sector with a dominant and direct role in public service provision and strong vertical system integration (Houlihan 1988). The emphasis is upon the formal organizations which form part of the structures of public provision, and on finding the 'correct' principles of public administration through which efficient co-ordination of the system can be achieved. In recent years, therefore, research has tended to focus on the changing nature of the relationships between the agencies of central and local government within this structure, and on the mechanisms and instruments used to regulate these relations and deliver national and local policy (Malpass and Means 1993).

Policy implementation and strategic arrangements were largely accounted for by reference to the 'principal:agent' perspective (Hughes 1994). This perspective casts local authorities and their partners as 'agents', whose function is to carry out the strategic intentions of the 'principals', or government agencies. In the housing sector, local authorities have been responsible for developing a local strategic plan for delivering housing services locally, something which formed the basis of their housing investment programme bid to government. The design, implementation and, latterly, resourcing of the local plan required a degree of consultation or collaboration with other local public sector, private sector and voluntary sector service providers. Thus, the scope of housing organizations' strategic role at the organizational level has tended to be understood in terms of the local authority operating as an agent of government, acting within a regulatory framework, the primary purpose of which is to control public sector expenditure on local housing projects.

In this context, housing organizations cannot be seen as having a genuine direct strategic role themselves: instead, and this coheres with the public administration perspective, overall strategic responsibility rests with central government, along with accountability for policy development and implementation. The example of privatization illustrates the inadequacy of this perspective. Contracting-out, market testing, and competitive bidding cannot simply be seen as a means of developing incentive-driven agency relationships. This is because privatization has led to institutional, organizational and managerial changes in local authorities and housing associations (Lowndes 1999). While these changes have in part been thrust on the sector by changes in public finance, which in turn have prompted more creative uses of private sector resources, they have also involved repositioning by organizations themselves, in the hope that this will allow them to become more effective in a rapidly changing and turbulent organizational environment (Greer and Hoggett 1999). Organizations in this situation can be said to be drawing on and applying stabilizing managerial repertoires, which are an eclectic mix of elements drawn from practice in different sectors and

organizations (Reid 1999). In these paradigms, social housing organizations, both local authorities and housing associations, are seen as agents of state policy. Research informed by these paradigms has as a consequence made relatively little reference to the extensive literature on institutions or organizational behaviour.

While the central-local relations and the public administration paradigms help to explain and analyse 'structures' and 'systems', they provide a limited basis for analysing the changes at institutional and organizational levels which are associated with the process of modernization. This is because they do not sufficiently acknowledge the scope for substantial and complex infrastructural and institutional change, triggered by measures such as the privatization example given above. Furthermore, the models tend to marginalize the role of human agency and the way in which social action shapes organizational practice and organizational change. The modernization agenda however brings into sharp relief the contingent nature of organizations. This contingent dimension can be understood in terms of the structures and patterns of organization which emerge as shifting solutions to the problem of finding the most efficient and effective organizational means of dealing with shifting realities. These processes of organizational problem-solving and positioning are rendered invisible by the central-local relations and public administration paradigms.

TOWARDS A NEW THEORETICAL FRAMEWORK

Having noted some weaknesses in past research into housing policy and housing organizations we now go on to review three theoretical perspectives which offer a more valuable framework for understanding modern social housing organizations. These comprise the new institutional economics, strategic management and institutional theory.

Governance: the contribution of new institutional economics

There has been increasing interest in recent years in the ways in which economic and political processes are mediated through networks of organizations and in the patterns of distribution of power, resources and decision-making functions which operate within networks. This interest encompasses broad brush analyses of overall patterns of social and economic organization (Campbell *et al.* 1991), the discussion of distinct principles of institutional organization such as hierarchies, networks and markets (Williamson 1985) and more specific concerns about the ways in which individual institutions are governed (Kooiman 1993). In a British context, Maidment and Thompson (1993) review what they refer to as 'policy co-ordination' or the mechanisms for co-ordinating social life. This work has a sectoral dimension. The relationships between local governance and the 'new management' are the subject of a recent edited volume by Stoker (1999), which also includes a number of sectoral contributions relevant to housing (Lowndes 1999; Pollitt *et al.* 1999; Reid 1999).

Until recently, housing research has made few connections with this work. As Malpass (1997) has argued, interest from housing quarters in governance can be said in part to stem from a growing concern over corporate mismanagement in the private sector on the one hand, and on the other, concern over standards in public life. This needs to be understood once again against the context of the restructuring of housing services which resulted from the Conservative governments' commitment to privatization. Over the 1980s and 1990s this gave rise to a changing and more fragmented 'system' of housing service provision, more of which fell outside the regulatory control of the public sector. Governance theory offers a conceptual framework for interpreting the way in which policy co-ordination and implementation has changed in social housing in recent years. The changes which are of particular interest include those which have affected the overall mechanisms of governing within social housing, the patterns of governing in which various organizations in social housing have a stake or are linked to, and the roles of the various actors in the governing process (Kooiman 1993). Furthermore, governance theory can be applied to understand institutional, administrative and co-ordination arrangements at different levels: at the organizational or corporate level, at the local or community level, and at the sectoral or functional policy level.

The governing activities of particular organizations, groups of local organizations, or organizations belonging to a single policy sector or field, may be co-ordinated according to different organizing principles. Governance theory identifies three main arrangements for institutional co-ordination (Stoker 1998; Maidment and Thompson 1993; Campbell *et al.* 1991; Thompson *et al.* 1991; Williamson 1975); the characteristics of each are summarized in Reid (1995) in relation to housing. Hierarchies are co-ordinating systems based on the principles of command and control which work in such a way that set operations are carried out to set standards wherever or whoever operates the procedures. They necessitate clear specification of roles, responsibilities and functions, and relatively formalized vertical communication and reporting procedures (Stoker and Young 1993). Markets as a co-ordinating system are based on the premise that efficiency savings derived from competition between different sub-sectors will ultimately be reflected in lower prices for goods and services. System co-ordination occurs through the links which exist between inter-connected sub-markets centred on different, differentiated products (Levacic 1993; Williamson 1985). In the public sector in England and Wales in the 1980s and 1990s, the government, as part of its commitment to privatization, created 'quasi-markets' using some market co-ordination mechanisms as devices to mimic the behaviour of the market (Le Grand and Bartlett 1993). Networks are groups of actors or organizations which act together and may pool selected competencies and resources in order to safeguard their position in a changing operating environment (Alter and Hage 1993). Networks sit some way between hierarchies and markets in that they tend not to be

hierarchically organized; however, neither are they in conventional market relationships with their potential partner actors or organizations (Thompson 1993).

An interesting feature of the organization of social housing is that these three sets of arrangements can operate simultaneously in different ways, and they can be used purposefully to structure the field. A related observation is made by Lowndes and Skelcher (1998) in relation to multi-agency partnerships in urban regeneration which they explain in terms of the interaction between organizational form and mode of governance. In social housing, the capacity of organizations to structure contingencies in their environment means that governance itself can have a contingent quality, in that it becomes a tool which organizations use in inter-organizational exchanges to structure their field. This is illustrated in two ways. First, different governance arrangements may operate at different points in 'the policy chain'. Taking a large regional housing association as an example, the funding and regulatory relationship which it has with the Housing Corporation may be characterized as hierarchical. The same association may be involved in competitions at local level for sites, resources or preferred partner status. At the same time, it may have built and be maintaining a network of links with specialist service providers to provide a range of creative solutions in the area of housing with care.

Second, and developing from this point, the governance arrangements associated with the internal governance of one organization do not automatically determine the governance mechanism it favours when it interacts with other organizations in its external environment. Thus, as Williamson (1975, 1985) suggests, though an organization may opt for a hierarchical mode of governance for internal purposes, in the external environment it may adopt other modes. One example of this would be a traditional, hierarchically organized local authority housing department, which developed joint working arrangements with a range of external agencies by setting up operational networks in the form of joint project management teams. This appears to reinforce Lowndes and Skelcher's (1998) case for making a distinction between organizational form and the governance modes operated by organizations working in multi-agency settings.

The advent of managerialism in public sector services (Pollitt 1990) and in social housing (Walker 1998a) means that at its most developed, the interplay between the three main modes of governance and their use as co-ordinating devices has led to the re-positioning of housing organizations between hierarchy and market. In this position they consciously and selectively operationalize aspects of each of the governance arrangements to achieve concrete aims. Consequently, the behaviour of individual housing organizations from an external perspective has begun to resemble something of a 'black box'. Policy implementation at the local or organizational level can no longer be understood solely either in terms of housing organizations acting as agents of government policy, or in terms of purchaser-

provider relationships (Reid 1999). Governance theory can contribute to our understanding of the 'housing system' by providing a means of interpreting the changing patterns of co-ordination and organizational arrangements which derive from organizations' attempts to structure contingencies at the sectoral, local and organizational levels. It also helps with the interpretation of the governance 'techniques' which have come to be used instrumentally by housing organizations as part of their managerial repertoires. It is in this respect that housing organizations can be said to have extended their competence beyond the 'new public management' by equipping themselves with ongoing adaptive strategies designed to maintain their collaborative advantage within the framework of the 'new competition' (Reid 1999).

Strategy: the contribution of strategic management

Until recently, the scope of local authorities' and housing associations' strategic role has been interpreted narrowly, in terms of their role as agents of state policy implementation. However, this is to ignore the extent to which individual social housing organizations in recent years have developed their own strategic awareness and practices as a component of their organizational development (Greer and Hoggett 1999). Discussion of the strategic role of housing organizations needs to take account of both the institutional framework in which organizations operate and the ways in which they seek to influence and restructure that environment.

The traditional 'principal:agent' model associated with the central-local relations paradigm is limited in scope at this level because it places a high priority on the control of public sector finances, bureaucratic and hierarchical modes of service delivery and standardization in service delivery. Instead, we may identify two distinct organizational approaches to the strategic role assumed by housing organizations. These approaches draw on a number of different contributions to the discussion about the changing nature of organizational processes. In particular, they draw on Hughes (1994) who makes the distinction between 'administration' and 'management', on Mintzberg (1994) and Mintzberg *et al.* (1998) who discuss the changing nature of strategic planning and strategic management, and on Pollitt (1990) who has discussed the rise of managerialism within this broad context. The two organizational approaches which are identifiable in relation to social housing are, first, the strategic planning approach; and, second, the strategic management approach. Movement along a continuum between these approaches over the past 20 years has been partly in response to changing government policy towards the public sector. Each of the approaches has implications for the way in which organizations exercise their strategic role at the organizational level, at the local level, and at the sectoral level.

The strategic planning approach in social housing is set against the context of the 'enabling' culture and the 'mixed economy' of provision, which has come to be associated with fragmentation in the organizational infrastructure of public sector housing service provision and more recently Best

Value. At local level, now, there is a more explicit requirement for a range of statutory, non-statutory, private, voluntary sector and community sector organizations to engage in strategic planning and co-operate in partnerships and alliances to provide services. Competition, in relation to product innovation and price, is well established, particularly within the housing association sector (Walker and Jeanes, 2001). Strategic planning approaches have also provided a basis for stabilizing and structuring the collaborative partnering arrangements which are formed at local level by local authorities, housing associations, private sector developers and others. Within the strategic planning approach, organizations focus on current and future situations, setting goals, setting out courses of action to achieve these, and measuring results. At organizational level, a basic strategic role for organizations is scanning their environment, though their capacity to act is subsequently set within a framework of local and sectoral parameters. At local level, organizations' strategic roles may involve them in some work and relationships which are of an agency character or are based on vertical integration arrangements, but they are typically also involved in work which entails a degree of competition, discretion and judgement. At sectoral level, the focus is on broad regulatory frameworks, the stated purpose of which is to develop strategic planning.

The strategic management approach is associated with the growing emphasis towards the end of the 1980s on managerialism in the public sector. This is linked with privatization, marketization and contracting out policies, including the establishment of 'Next Steps' agencies, market-testing and external decentralization, and initiatives bound up with the Citizens Charter and Best Value. These heralded the rise of strategic management in the public services. The 'strategic management' perspective differs from the strategic planning perspective in that it is 'action oriented' and places particular importance on the practical contributions individual managers can make to developing strategy and putting it into practice. At organizational level, the strategic management approach is characterized by a cultural commitment to and belief in the organization's strategic role and the importance of this to the organization's well being. Consequently, there is commitment to continuous environmental scanning, adaptation and review, and organizational learning. At local level, organizations' strategic role revolves around competitive tactics, collaborative partnering and the formation of other strategic alliances. At sectoral level, there is a 'tight-loose' strategic framework, where there is a degree of fragmentation, while different organizational sub-groups within the sector pursue their shared strategic objectives as a sub-sector.

Despite the pre-eminence of the traditional British public sector administration template, housing organizations' perceptions of their strategic role, and the way in which they interpret this role, have altered in recent years. In essence, the nature of social housing organizations' understanding of their strategic role appears to have moved away from the 'received wisdom'

of the public administration model which casts them as agents of government, to incorporate approaches which borrow from both strategic planning and management perspectives.

Social housing as a 'field': the contribution of institutional theory

Discussion of organizational change in social housing needs, however, to take account of the way in which the progressive redistribution of powers and responsibilities has affected and been responded to by these different groups of social landlords. The organization studies literature provides a number of concepts which help in exploring the extent and structure of inter-organizational relations in this context (Child and Smith 1987; Whipp and Clarke 1986). Di-Maggio and Powell's (1983) conception of an organizational field as a 'stable status order with acknowledged centres and peripheries' is a useful basic starting point. Well-structured organizational fields are those where organizations share a strong sense of being engaged in a common enterprise, reinforced by extensive information flows, structures of domination and coalitions. Such 'fields' may be structured by a variety of processes, including common legal frameworks, professional associations, educational, training and regulatory regimes, and, most importantly, common funding frameworks. The more recent 'policy networks' literature provides further insights into the ways in which organizations may act collectively to influence and structure their operating environments (Rhodes 1991).

Using these perspectives, some of the factors which have both structured and fractured the 'field' of social housing can be identified. The funding, legal, institutional and regulatory frameworks present within social housing have historically created a very significant fault-line, on one side of which lies the local government housing sector. This flourished between the 1919 decision to promote it as 'cheaper than Peabody' (Morton 1991), and 1979, after which its gradual decline in importance was hastened by the New Right's privatization project. On the other side of the fault-line, the housing association sector grew rapidly, stimulated by these same trends which diminished the role of local government. The extent of the fracture is indicated by differences in the funding frameworks, regulatory systems, and patterns of recruitment and organization which continue to operate in the two sub-sectors. Homogenizing processes, such as attempts to build common professional and educational frameworks, have only recently begun to make an impact on the fracture.

Perhaps the most significant driver for unifying the two sectors has been the accelerating process of stock transfer from local authorities to the registered social landlord (RSL) sector. This process of organizational and staff transfers between the local authority and RSL sectors to escape from public sector borrowing constraints on stock reinvestment has been interpreted by Pollitt *et al.* (1998) as an example of decentralizing the management of public services with strong parallels to developments in the health and edu-

cation fields. While it had resulted in over 100 local authorities transferring nearly 350 000 homes between 1988 and 1999 to RSL ownership, it was only the involvement of larger urban authorities in the programme after the 1997 election, and the acceleration of demand for transfers (the 300 000 home programme for 1999/2000 alone was almost as great as that of the previous ten years combined), that began to lead to tentative moves towards more unified regulatory regimes. First in Scotland and later in England proposals were advanced for a single social housing tenancy to reduce frictional disincentives on tenants to transfer. There were also increasing arguments for merging the long-established regulatory regime of the Housing Corporation with the newly established local authority Best Value Housing Inspectorate.

At the same time, the complexity and uncertainty of the field is reinforced by evidence, alongside these integrating influences, of increasing fragmentation and diversification within the housing association sub-sector in particular (Mullins and Riseborough 2000). While the social housing sector as a whole therefore has historically enjoyed relatively weak organizational inter-linkages and common norms and does not constitute a single organizational field, there is evidence of a relatively high degree of cohesion at sub-sectoral level, with a common understanding in some areas, for example on sub-sectoral values and purposes, common career patterns and a degree of field structure (Mullins 1997a). Decision networks linking housing associations with funding and regulatory agencies are evident, and there is also evidence of purposive activity designed to influence the field structure through collective action. The distinct feature here is that within the social housing context these cross-sectoral policy communities and networks operate best at a sub-sectoral, rather than a sectoral, level. This brief summary demonstrates the importance of considering the overall pattern of inter-organizational relationships within social housing as a field and the changes to this over time.

Summary

The above discussion of governance, strategic management and institutional context of the housing field has served to indicate the role of organizational analysis within social housing research. The range of theoretical evidence presented highlights the extensive fracture and partial co-ordination of activities between social housing organizations and illustrates the limitation of approaches which treat policy implementation as either unproblematic or as a simple 'principal:agent' problem. The value of this tripartite theoretical framework as a starting point for the analysis of housing organizations is demonstrated below in our review of three central areas of housing research and practice.

REGULATION, PROFESSIONALISM AND CHANGING ORGANIZATIONAL BEHAVIOUR: EVIDENCE OF THE NEED FOR A THEORETICAL REFOCUS

This section reviews the evidence at the sectoral and organization levels. Regulation and professionalism are taken as examples at the sectoral level

because the regulation of social housing can be seen to have increased as governance arrangements have become more complex and organizations have developed their own strategy capacities. Professionalism is explored because of the ever-present but growing uncertainty about the nature of the professional housing manager. Evidence on organizational behaviour, taken from the authors' research, is explored to demonstrate the complexity of the modernizing social housing field.

Regulation

Regulation can be conceptualized in social and in economic terms (Francis 1993). Social regulation is concerned with the imposition of boundaries based around morals, risks or the definition of acceptable limits, whereas economic regulation focuses on prices, profits or the management of competition (Mullins 1997b). In housing, regulation has traditionally been for social purposes, to ensure that housing is provided to a decent standard and that tenants are treated fairly. Economic regulation was limited to the fair rent system in operation under the pre-1988 housing association funding regime, and government intervention in local authority housing. However more recently, the government has increased the emphasis on economic regulation. For example, central government has powers to control local authority rents and is increasingly concerned to depress these (Malpass 1996). The housing association regulator has also increasingly moved towards economic regulation, controlling the costs of social housing to tenants, and consolidating its regulation role overall (Walker and Smith 1999).

Regulatory systems are important for a number of reasons. Historically, local authority social housing provision was regulated principally through political accountability and the democratic process of local government elections. Meanwhile, central government always had a range of intervention powers, including financial incentive structures and sanctions which extended to debarring councillors from office. These more direct forms of intervention on the part of central government were progressively strengthened under the Conservative administrations of the 1980s and early 1990s (Flynn 1997). A more formal approach to the regulation of local government was instituted in the early 1980s when the Audit Commission was established. The Commission is responsible for auditing local government and has a wider remit to promote 'value for money' and 'good practice'. The powers of the Audit Commission are broad and can influence the operations of a local authority housing department at a fundamental level. For example, if the Commission believes an authority is over-staffed or inefficient it has powers to alter its structure and operation.

The regulation of housing associations is extensive, though this varies between England (the Housing Corporation) and Wales (Housing for Wales from 1989-99 and the National Assembly for Wales since 1999) and Scotland (Scottish Homes) (Day *et al.* 1993). The powers of these regulatory bodies, initially established in 1964, have been strengthened as associations

have become more central to the provision of housing. As in the local authority sector, there has been a move from a predominately social form of regulation to an increased emphasis on economic regulation and the control of prices in the sector. The regulator seeks to ensure that associations meet a range of basic requirements in the development of new homes and their ongoing management. The basis for this is provided by Performance Standards (Housing Corporation 1997b) which are drafted to reflect an overall organizational regulation role and a specific service regulation role for social housing services. Minimum standards are set in relation to overall organizational governance and finance, and quite detailed Social Housing Standards are set for housing services to residents; however, the document fails to set similar standards for other services provided by associations. As associations have undergone 'marketization', they have been subject to more extensive regulation (Pollitt *et al.* 1998). The private finance markets, from which they have now borrowed in excess of £14 billion, have their own regulatory requirements while taking 'comfort' from the regulatory regime to ensure the safety of their investments. In addition to the housing regulators, social housing organizations are also influenced to varying degrees by other regulatory bodies which are responsible for some of their 'non-housing activities', such as social care, training and employment initiatives. This may involve, for example, Companies House, the Registrar of Friendly Societies, or the Charities Commission, depending on their legal status. The expansive nature of association regulation is often seen as restricting innovation and leading to institutional isomorphism. For example, Mullins *et al.* (1995) demonstrate how associations which had been set up to acquire homes (and staff) from local authority housing departments rapidly acquired the style and culture of housing associations rather than retaining their local authority characteristics.

The increasing emphasis on economic regulation has been particularly evident in the housing association sector. During and following the enactment of the 1988 Housing Act, the Housing Corporation as regulator took a laissez-faire attitude towards rent levels. Associations' rents rose by over 120 per cent in the decade from 1988 to 1997 as they were encouraged to move rents towards 'market' levels. As was mentioned at the start of this section, regulatory action, initially in Wales and subsequently in England, has since moved to control rent levels (Walker and Smith 1999), partly because of growing central government concern about the unanticipated impacts of earlier policy. Increased rent levels linked to a shift in the balance of subsidy away from production and towards consumption has led to spiralling increases in the cost of the national welfare benefit bill. The outcome of action on rents by the regulator has been that, for example in Wales, average rents have fallen by 15 per cent over the four years to 1998. The regime in England now fixes annual rent increases across an association's entire stock at an average of the retail price index plus one per cent. All associations are subject to this regime and even large and influential

associations have not successfully contested it. This is the first significant intervention into the arena of economic regulation by the industry regulator and echoes the approach to price regulation adopted by the utilities sector regulators. It will also have significant effects on the operations of associations should they attempt to use subsidy or efficiency savings to reduce operational costs. What is of particular interest here is that the regulator is promoting a policy which may potentially in the longer term jeopardize the financial viability of some associations.

The regulatory framework for social housing is currently being reviewed by the Labour government which, as part of the drive to 'modernize' local government, has promoted the notion of Best Value. Though this is presented as a new form of management, blending notions of performance measurement, competition, strategic planning, benchmarking, and user and employee involvement, it nonetheless imposes performance standards on local government (Boyne *et al.* 1999). For example, if a local authority falls below a given service threshold then there is likely to be some intervention which could include, for instance, enforced competition or the imposition of a new management team. The Best Value framework, which is currently being piloted, is seen by some as undermining the traditional role of the local authority councillor, in that management information relating to service users and other providers is set to be transferred into the domain of officers. The Best Value regime also increases the regulation of local government through the 'Housing Inspectorate' to be run by the Audit Commission, with a brief to draw up and enforce basic standards of housing management.

This regulatory regime is being 'read across' to the housing association sector in an indirect way, mediated through the industry regulator, which in the first instance defined Best Value as good practice rather than a regulatory requirement (Housing Corporation 1998). This position gradually transformed as guidance was issued, arguing that 'the principles [of Best Value] are just as relevant to the way RSLs run their businesses and provide services as they are to local authorities' (Housing Corporation 1999a, p. 2) and requiring all RSLs with over 250 properties to provide a written response to the guidance by 30 September 1999. Early in 2000, an analysis of these responses was published (Housing Corporation 2000a) and a discussion paper was issued (Housing Corporation 2000b) proposing a method for identifying RSLs who meet or exceed key performance standards, have achieved improvements in performance indicators relating to these standards and who have demonstrated a commitment to Best Value to secure service improvements. These developments may be creating conditions for the emergence of a more unified field of social housing as common frameworks and performance indicators for Best Value become superimposed on the regulatory framework to shape and control the nature, behaviour, direction, and ways in which social housing organizations cope with the diverse range of organizational and governance strategies. As increasing

volumes of stock transfer from the local authority to the RSL sector, the case for a single regulatory regime is strengthened as well as the relationship between the Audit Commission's Housing Inspectorate for local authority housing and the Housing Corporation's regulation of RSLs. The power of these external organizations and their regulatory frameworks can also be traced through to developments within the housing profession.

Professionalism

The history of the housing profession and the 'professional housing manager' is one of dispute, conflict and uncertainty. Until the mid-1960s the profession was represented by two separate bodies. The Society of Women Housing Managers endorsed and practised a welfare-oriented approach to housing management. The Institute of Housing, by contrast, promoted a property-based approach. The merger of the two organizations in the 1960s to form what is now the Chartered Institute of Housing (CIH) led to male as opposed to female domination of the profession, and an emphasis on property as opposed to a focus on the personal, on welfare, and on training.

Continued uncertainty after the merger reflected the relatively weak position of housing management within local government, the main provider of social housing, and from which the CIH's membership was substantially drawn. This potential professional arena for the CIH was already dominated by other groups, including accountants (for rents), engineers (for repairs and maintenance) and architects (in the design and construction of new homes), which had succeeded in establishing their professional 'project' across a much wider domain. Moreover, housing management centred on what were perceived as low-level administrative tasks, such as allocations. Housing, consequently, was of a low status within local government, frequently not existing as a department in its own right, though there was pressure to set up stand-alone 'comprehensive' housing departments after the 1974 reorganization of local government.

Given this history, the status of housing management as a profession is questionable. Stewart (1988 p. 39) provided a swingeing critique of housing management, suggesting that the: '... very use of the word 'management' to describe the profession suggests not a profession, but a particular management role requiring specialist skills or knowledge'. Clapham (1997) has argued that this bias has been reflected over the years in the CIH's emphasis upon the tasks and skills of housing management work rather than seeking to define a wider knowledge base in which these activities might be located. Part of the reason why so little is known about the nature of housing organizations and their management lies in the insularity of the approach adopted by the CIH, and its lack of attention, with a few notable exceptions, to the wider organizational setting.

Further complexity arises through the uncertain nature of the boundaries of housing management (Franklin and Clapham 1997), and its place in relation to organizational behaviour and corporate operations. The histori-

cal tension reflected in earlier times by the two competing professional representative bodies continues to be played out. The marketization process in the sector has increased the emphasis given to adopting a business ethos and focusing on core functions, leading to a renewed focus upon property management and managerialism (Walker 2000). For example, there is a renewed focus on maintaining an income stream by ensuring rents are collected and properties let rapidly. At the same time as marketization, the targeting of subsidies on those in greatest need has led social housing organizations to house the most deprived households. Within the housing association sector, associations have responded to the difficulties their tenants face by developing a 'housing plus' agenda. This agenda is not well specified and is concerned amongst other things with the creation and maintenance of sustainable communities, obtaining added value from housing management and investment, and building partnerships with stakeholders in communities (Housing Corporation 1997). The 'housing plus' initiatives identified in recent research embrace employment and training, care and support, youth schemes, participation and specific projects such as furniture, health and transport services (Clapham and Evans 1998). One theme of this agenda is to provide community development services, and, again, this reflects a new dimension to the work of housing officers, where they potentially lack the necessary 'professional' skills. At the same time, the nature of some social housing organizations' activities has also changed. For example, some now provide residential homes for older people, for people with learning difficulties or people with HIV/AIDS. Thus, at the same time as there has been pressure to focus work on a narrowly bounded core business, the growing welfare needs of tenants, and wider business opportunities have tended to broaden the boundaries contested by the social housing 'profession'.

Despite the conflict and uncertainty which characterizes the social housing profession, Walker (2000) and others (Franklin 1988; Franklin and Clapham 1997) have argued that over the last two decades there has been a movement which might be described as a 'professional project' (Larson 1977). The concept of a 'professional project' describes how occupational groups seek to establish and secure their market position to define and sell their expertise and secure their social status and aspire to upward social mobility. Professional projects are identified by reference to notions of market closure, specialist knowledge and discretion over the nature and content of work. In the case of social housing it is possible to argue that the 'professional project' has been stimulated as much by central government as from within the profession itself.

In the late 1970s the Department of the Environment became concerned about growing levels of poverty, stock condition and difficult-to-let homes in local authority estates (Laffin 1986). Intensive local management experiments were fostered in an effort to resolve these practical problems (Power 1987) while also revitalizing the professional activity of housing manage-

ment by drawing upon its welfare and social control roots. During the 1980s the CIH itself acted in response to privatization policies, seeking to extend its domain across the social housing field to include housing associations where it had previously had much less influence (Mullins and Riseborough 1997). During the same period the residualization of social housing was seen by some to strengthen the professional base (Franklin 1998), but as has already been suggested, there were also increasing uncertainties about the boundaries with other professional groups involved in tackling the issue of social exclusion. Nevertheless, the CIH increasingly sought to act as a professional body within a broadening social housing sector field. Professionalization and professionalism have been given increasing emphasis across a range of the CIH's published outputs: in its Charter, educational programmes, codes of professional conduct and standards, and through its 'pressure group' lobbying of government on policy issues. However, the 'profession' as a whole has been relatively unsuccessful in achieving market closure. It has a membership of around 10000 out of a labour force of around 100000 (Walker 1998b). This lack of professional closure is an important factor in explaining the continued fracture of social housing as a field. The complexity of the housing professions and the 'professional housing manager' further illustrates the need to understand organizational strategies which now focus upon many non-housing activities and lead to the adoption of more complex internal and external modes of governance.

Organizational behaviour

In the previous sections of the paper it has been established that uncertainty and turbulence increasingly characterize the operating environment of social housing organizations, and some of the changes in organizational behaviour which have resulted from this have been hinted at. It is now clear that social housing organizations are developing sophisticated repertoires of behaviour as they borrow from 'strategic management' and other management approaches. This creates a degree of unpredictability in both their internal and external behaviour, and a significant shift away from the 'principal:agent' perspective is now required in order to shed new light on their operation. This discussion falls into three parts: organizational and governance form, external images and diversification.

Internally, housing organizations are increasingly abandoning bureaucratic models of organization and instead adopting the tight/loose configuration of the 'modern organization' (Ferlie *et al.* 1996). Typically, a strong core controls the overall strategy and business plan, but there are much looser patterns of control over operational matters at local level. Associated with this organizational model are a range of change processes intended to promote organizational efficiency. Like many other public service agencies, housing organizations are 're-engineering' their business processes, 'de-layering' their hierarchies, 'empowering' operational staff, and taking decision making 'closer to the customer' (Walker 1998a). One

example of this is the re-designation of sheltered housing wardens as scheme managers with operational control over a facility with internal and external markets (Mullins and Riseborough 1997). Such developments have led Walker (1998a) to conclude that housing associations are increasingly conforming to private sector management models, while Mullins and Riseborough (1998a) have questioned the implications of such changes for the strong emphasis on an ethical value base still found in many housing association images and identities.

There is nonetheless a strong tendency within the sector and within individual organizations to seek to centralize control through tighter co-ordinating mechanisms tied into governance structures. Even organizations which place a strong emphasis on accountability and community involvement have tended to centralize key decision making on smaller groups of officers and small committees of key members.

Executive power has also increased through increasing levels of delegation, and through the establishment of executive controlled subsidiaries within group structures and arms-length bodies with major decision making powers (Mullins and Riseborough 1998b). The importance attached to centralized control is indicated by the emphasis on the monopoly position of central services such as information and communication technology and financial control functions in the negotiation of mergers and group structures (Mullins 1999). However, beyond these core areas there is an increasing tendency to rely on the 'backseat driving' (Carter 1989) facilitated by performance indicators of output that are often based on externally driven benchmarks. These allow the corporate core of organizations to retain a degree of control over operational matters by adopting a similar relationship to the operational periphery to that of an external funder to the housing association as a whole.

The increasingly loose co-ordination of operational matters is indicated by the tendency for housing organizations to adopt different local structures and approaches to equip them to adapt to local opportunities. For example, large housing associations may be willing to operate many different allocations policies at local level to meet the requirements of local authority partners (Mullins and Niner 1996). Some housing organizations have adopted a strong emphasis on 'piloting', whereby new local initiatives may often appear to contradict (or pre-figure) corporate strategy insofar as this is represented by their business plan. Such opportunistic behaviour may produce problems of integration. For example, growth in a particular area of activity may involve the absorption of large numbers of new staff with different terms and conditions to 'core' housing staff. In some cases this has led to the development of 'group structures', with different business streams such as home care services and economic regeneration activities acting as subsidiaries to the main housing organization's holding company (Mullins and Riseborough 1997).

Second, external images and behavioural repertoires frequently involve

the simultaneous operation of hierarchy, market and network modes of co-ordination. For example, participation in local commissioning groups, SRB partnerships or common housing registers, may superficially appear to be a form of collaborative behaviour but may be seen by the organization itself as an aspect of its competitive strategy to secure resources, solidify relationships and maintain market position (Reid 1995).

A noticeable feature of recent organizational behaviour among some social housing organizations has been an increasing awareness of niche marketing, branding, and image making (Riseborough 1997). In the housing association sub-sector the trade body, the National Housing Federation (NHF), secured a major competitive advantage in branding the sub-sector as 'value based' in the face of potential competition from the profit-distributing sector in the run up to the 1996 Housing Act. By highlighting the differences of emphasis accruing from not-for-profit status and mythologizing a common sense of history and purpose, the NHF was able to unite traditional housing associations with new forms of registered social landlord such as local housing companies. Thus, the monopoly access to government capital funding enjoyed by such organizations was preserved (Mullins 1997b).

At the organizational level, there has been a similar emphasis on projecting a value based image, but also more sophisticated and tailored responses to particular market opportunities. For example, an organization specializing in bringing empty properties into use may present itself in slightly different ways to different local authority customers to fit in with their known requirements: for example, as 'a niche player in urban regeneration', or 'an active partner to help other agencies to gel together' or as 'a cost effective provider of temporary accommodation for homeless people' (Mullins 1997a). Increasingly, organizations are commissioning 'image makeovers' with consultants advising on how they are seen by their various stakeholders, and on how to rebrand the organization to maximize competitive advantage. Press releases provide an interesting indicator of the ways in which image consciousness affects the re-presentation of corporate strategies to meet the conflicting requirements of different stakeholders. For example, it is rare for a merger to be promoted as a simple business efficiency exercise. Inevitably the message focuses on how synergy will be created by the merging of these two compatible cultures and how this will enhance the ability to meet government policy objectives such as tackling social exclusion while, of course, benefiting existing tenants (Mullins 1998).

A final feature of external behaviour exhibited by housing organizations in the 1990s has been a reducing conformity to a narrow range of existing models of operation across the sector. It is debatable whether the notion of a 'voluntary housing movement' was ever an accurate depiction of a common sense of purpose amongst housing associations as a whole. However, the turbulent environment of the 1990s has made the fractures between the

different types of organization much clearer. Similarly, as local authorities have become involved in new ways of working, they too have become increasingly differentiated according to the types of internal transformations and external partnerships they have become involved in: sometimes the same authority may operate very differently in different neighbourhoods. A key driver for these changes has been the redistribution of funding opportunities away from central government and the Housing Corporation to a much wider range of sources including private finance and public/private partnerships. This reduction in 'resource dependency' (Aldrich 1976) has encouraged some organizations to become more active in asserting their independence.

Of particular importance at the inter-organizational or 'field' level is the impact of diversification of funding sources on different organizations, our third area of organizational behaviour. The shift of activities to exploit alternative sources of funding, which often involve funds not designated exclusively for housing activities, is beginning to produce some radical redefinitions of organizational purpose. There has been a general playing down of the word 'housing' in mission statements, and in corporate plans and strategy statements, and both local authorities and housing associations are now presenting themselves and their housing function as 'working to improve the quality of life of tenants and the community', or simply 'adding value to local communities' (Mullins 1997a). For some organizations, landlord activities have become a much less important element of their overall business portfolios or local strategy. Indeed, some organizations no longer see themselves as housing focused at all: there are the examples of one housing association which has rebranded itself as a 'Social Investment Agency', and another which has restated its purpose in terms of 'an organization promoting independence and choice for older people' (Mullins 1997a). There are in addition numerous examples of local authorities recasting their traditional housing departments as 'Customer Services' or even 'Personal Services' departments.

Such diversification of activity presents challenges to any sectorally based analysis of organizational behaviour, and questions the validity of the notion of a single 'organizational field'. It produces similar challenges to the regulation and professionalization projects discussed earlier in the paper. The extent of overlap and gaps in the regulatory matrix for organizations involved in housing, care, employment, and regeneration initiatives is currently exercising central government. The Housing Corporation (1999b) has published proposals to limit the putative risks of diversification by imposing limits on the proportion of housing associations' ongoing business accounted for by activities outside of 'core social housing activities'. In an apparently contradictory draft statutory instrument, the DETR has proposed extending the permitted purposes of social landlords to include 'providing amenities or services for residents who are or who include residents of accommodation managed by themselves' (DETR 1999). These two

responses indicate the dilemmas posed for regulators by diversification stimuli and responses. Meanwhile, at the same time, diversification has presented further challenges to the professionalization project as re-definitions of competencies are required and many organizations are taking the view that attitude and aptitude are more important to staff recruitment and selection for the modern housing organization than professionally validated packages of knowledge and skills (Reid, Hills and Kane 2000).

CONCLUSIONS

The governance and organization of the sector has moved away from the single model of the traditional hierarchical form of organizing which typified the British public sector towards a menu of new combined forms of governance and co-ordination which draw on hierarchy, but also on market and network principles. Options from this menu for organizing are purposively selected to suit particular objectives and opportunities. This may result in patterns of organization which encapsulate all three modes of governance and shape their approach to co-ordination. This is clearly evident in the strategy process. Because housing strategies have traditionally been built on the back of hierarchical forms of organization, this accounts substantially for the central place which the central-local relations literature has occupied within housing studies, and which has reinforced the 'principal:agent' interpretation of public service delivery. However, complexity has increased as local authorities have ceased to be the sole delivery 'agent' for central government programmes. Instead, a complex network of relationships has developed as both central and local government have adopted strategic management approaches, including the option for providers to exit from the local government sector. Instead of a single local 'agent' there are now looser alliances of agencies, engaged in both competitive and co-operative relationships with one another, and with varying degrees of allegiance to the local authority as strategist or enabler.

These changes are clearly seen in the fundamentally altered behaviour of housing organizations. However, the search for identity in the new complexity is resulting in complications in achieving accountability and meeting regulatory requirements, as institutional change moves ahead at a variable pace. No longer are the regulators sure of what they are regulating, nor even if they should be regulating certain areas of activity at all. The Best Value agenda, and the part it has to play in the process of the new Labour project of 'Modernizing Local Government', offers the prospect of even further variations in purpose as local authorities will be encouraged to go further to provide services that are responsive to the complex 'well-being' needs and demands of their users. However, alongside this diversification process there are renewed pressures for conformity. One example of this is where Best Value and its associated management tools of total quality management and benchmarking are encouraging organizations to look to comparisons with their peers, typically within the sector, to achieve

continuous improvement. Rather than serving as a means of introducing innovation and diversity, it is possible that new forms of isomorphism could develop through this process.

Our argument has been that housing research has not yet critically addressed this changing world. In order to advance our understanding of the link between the modernization agenda and institutional change, further research is needed. This research agenda, adopting a tripartite organizational perspective, would seek to further explore the nature of the interorganizational relationships. In particular, it would be important to understand the models of strategic management adopted by organizations and the relationship between models and governance modes. Further research would also need to examine the institutional pressures for change to understand the factors that shape social housing as a field. The tripartite theoretical framework could also be used to unpack the 'modernization' rhetoric of the British Labour government. In addition to this it would also be important to undertake rigorous empirical work, beyond our exploratory review of the application of these theoretical ideas to three aspects of housing organizations, to comprehensively assess the changing management and organization of social housing.

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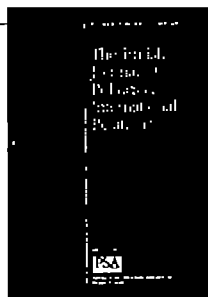
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W W W . B L A C K W E L L P U B . C O M

REGULATION IN AN EPISODIC POLICY-MAKING ENVIRONMENT: THE WATER INDUSTRY IN ENGLAND AND WALES

WILLIAM A. MALONEY

This article describes and analyses the evolving regulatory game in the post-privatized water industry. It highlights a regulatory environment that is more complex than that which existed under public ownership, and an industry which is subject to heavier regulation in the private sector than it was in the public sector. There has been erosion of the strict public/private divide following privatization. The article highlights an episodic and seemingly incongruous policy-making environment that defies consistent characterization: sometimes private consensus is the main feature and sometimes it is public conflict. It also illustrates that while there are two broad-based constituencies of interest active in the water sector – cost and environmental – the composition of these coalitions mutates depending on the issue being considered. Indeed, there are occasions when core constituency participants ‘defect’ and join the ‘opposing side’.

INTRODUCTION

The privatization programme transformed utility policy generally from a relatively quiet ‘backwater’ of a largely technical nature, characterized by low political salience, to a highly politicized policy area characterized by high political salience. One of the most acute examples of this transformation is the water industry in England and Wales. The political salience of the water sector has been fuelled by several factors, including: a widespread belief that the industry was sold-off too cheaply (the companies were sold for £6.5bn, with £5bn in debt written-off); a populist furore over ‘excessive’ profits, executive pay and share options (e.g. in the seven years succeeding privatization the salaries of water industry chairs and chief executives rose by an average of 350 per cent – excluding pensions, share options and other perks; and rising prices (since 1994 average household water bills in England and Wales have risen [in real terms] by 4.5 per cent and household sewerage bills have increased by 10.5 per cent)) Office of Water Services (1998).

While the ideological and political struggles have now firmly shifted from the politics of privatization to the politics of regulation, the political controversies surrounding the sector have not evaporated. These have been

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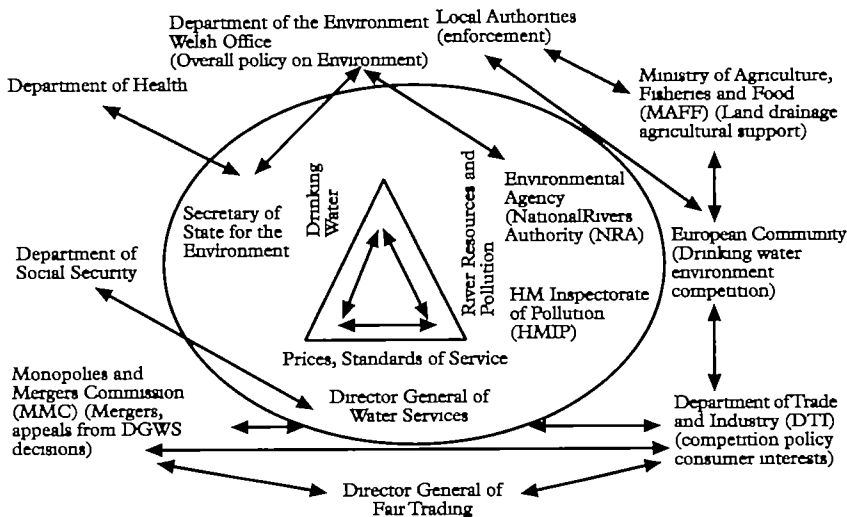
given further sustenance by a regulatory structure and process that is more complex and 'open' than that which existed under public ownership – regulation has also proven to be more invasive. With such complexity (see figure 1) the policy formulation and implementation processes have become increasingly difficult to characterize because the number and types of participants and the pattern of actor relationships tend to vary on an issue-by-issue basis.

Privatization and nationalization are commonly seen as being at polar points on a continuum: with the former associated with liberalization, deregulation and free market governance, and the latter with the most invasive form of state intervention. However, the evidence in this article challenges this binary model. The role of the state has been recast rather than reduced. Water regulation post-privatization is a 'messy' game in which '... the rules are uncertain, the method of scoring is in dispute and the distinction between players and spectators is unclear' (Baldwin and Cave 1999, p. 334).

IMPLEMENTATION AND SUBSYSTEM POLITICS

The implementation of regulatory policy in the water sector is characterized by a classic principal-agent problem. The crux of this dilemma is information asymmetries: that is, the principal (the regulator) lacks the detailed technical knowledge and expertise that the agent (the regulatee) possesses. Accordingly, the principal must enter into a contractual agreement with the agent in the expectation that the agent's behaviour will produce outcomes desired by the principal. However, as Moe (1984, p. 756) highlighted, there

FIGURE 1 *Structure of the new regulatory framework*



Source: adapted from OFWAT, 1993b.

is no guarantee that the agent will '...choose to pursue the principal's best interest or to do so efficiently. The agent has his own interest at heart, and is induced to pursue the principal's objectives only to the extent that the incentive structure imposed in their contract renders such behaviour advantageous'. Clearly, regulatory arrangements need to include: an incentive system that both induces the agent to behave in a manner congruent with the principal's wishes and 'prizes away' as much private information as possible from the agent; and an efficient system for verification.

As noted by many scholars since Pressman's and Wildavsky's (1984) seminal volume on implementation, legislative outcomes do not imply or involve a direct transmission of policy ideals and objectives into action. As Harris and Milkis (1989, p. 7) put it, the process of implementing regulatory policies is characterized by conflict and bargaining more than by a 'clear matching of ends and means'. It is more realistic to see the implementation of policy change as an integral part of the policy-making process, involving bargaining, negotiation, compromise and mutual accommodation. Accordingly, the process is continuous, involving a wide variety of participants – including some who may have failed to secure part of what they wanted at the policy development stage who see the implementation process as an opportunity to raise old as well as new issues. As Mazmanian and Sabatier (1983, p. 28) aptly summarize: policy does more than simply shape the design of implementing agencies, it can encourage or discourage the participation of outside actors, including programme 'clients', and private and other governmental participants.

Ripley and Franklin (1986, pp. 2–3) see the implementation process as 'messy', arguing that two conclusions are constantly reinforced when implementation is analysed in detail: (1) No one is clearly in charge of implementation; and (2) Domestic programmes virtually never achieve all that is expected of them. They further maintain that these generalizations hold because of: the complexities of modern policy-making; the conflicting values, interest and beliefs of key actors in the implementation process; the patterns of implementation; the decentralized nature of implementation; and that *effective implementation* has different meanings in different contexts. Finally, Ripley and Franklin (1986, p. 10) identify five salient features of the implementation process: '[It involves] *many important actors holding diffuse and competing goals and expectations who work within a context of an increasingly large and complex mix of government programs that require participation from numerous layers and units of government and who are affected by powerful factors beyond their control*' (original emphasis).

Analysing implementation as a bargaining and negotiation process sets the policy subsystem as the conceptual datum. The policy subsystem is defined encompassingly as including a wide range of public and private actors involved in policy formulation and implementation processes. Within 'implementation' subsystems there is a great deal of participator diversity and we are likely to find *mutating coalitions* fluctuating in shape

and character. Sabatier (1986, p. 40) argued that conflictual policy positions and strategies pursued by these coalitions are mediated by a third party, namely a *policy broker*, '... whose principal concern is to find some reasonable compromise which will reduce intense conflict'. However, the evidence given below illustrates that policy brokers/principals in the water sector (the main regulatory authorities – the Office of Water Services [OFWAT] and the Environment Agency [EA]) are also major protagonists in an iterated regulatory game. Regulatory principals are omnipresent, but not omnipotent. Actors such as OFWAT and the EA are 'forced' to bargain for influence (irrespective of their nodal position) because of information asymmetries vis-à-vis their clients, and the fact that their clients also possess significant implementation power.

Within the water sector, the post-privatization policy 'settlement' has not returned to what Richardson and Jordan (1979) called the *private management of public business*: if industry professionals had the franchise before privatization they have not completely regained it post-privatization. A largely protective regulatory policy (namely a policy style emphasizing directions, punishments or constraints upon the actions of regulated bodies), increased political salience and the complex regulatory structure have predictably led to a considerable degree of conflict within the policy sub-system between the companies and the regulatory authorities. More controversially, however, there have been bitter 'turf fights' between the two main regulators – the environmental regulator, the National Rivers Authority (NRA), EA (the NRA's successor organization), and the economic regulator, OFWAT. This conflict is predicated upon the absence of several factors that ensure policy sub-systems function smoothly: shared attitudes, shared ideological values and shared broad policy preferences (see Jordan 1990; and Rhodes and Marsh 1992).

However, it would be misleading to suggest that the system is totally besieged by conflict because of what Jordan (1981, p. 121) sees as the '... "logic" of policy making which acts as a drive towards more stable, regulated predictable relations' (see also Jordan and Maloney 1997; Jordan and Richardson 1982). There are many instances of more private bargaining (policy community-type arrangements). However paradoxical such a characterization appears, it is not unique. Research in the last 20 years in the US has stressed the disintegration of closed politics among predictable participants, and the increasing importance of issue networks. For example, Browne (1995, p. 13–14) speaks of issue fragmentation, issue overlap and the existence of a hollow core rather than a cliquish inner circle, with a more unco-ordinated process of governing. This conforms to what Jordan and Maloney (1997) described as the two competing images of modern policy-making: *order and predictability*, and *complexity*. The latter assumes that policy emerges from a disorderly interaction of parties, political groups and bureaucrats; the former stresses patterns of policy-making stability through which such complexity is processed. It appears that on many occasions the

resolution of high-profile controversies requires disaggregation into a series of less contentious manageable facets that are processable within policy community-type arrangements. This is the politics of the particular: a mode to resolve details.

NATIONALIZATION: THE PRIVATE MANAGEMENT OF PUBLIC BUSINESS?

Rhodes (1988) argued that (in the 1970s and 1980s) the water sector could be characterized as a professionalized network, within which water engineers dominated the Regional Water Authorities (RWAs), government departments and other policy-making centres. The 'glue' binding these network participants together was a set of mutually shared values and a general consensus on an extensive range of issues that created a considerable cohesive force to influence and shape policy outcomes. These types of networks comprise a major part of what Beer (1978) terms the 'professional bureaucratic complex' – a technocratic decision-making system having a narrow base and showing little cognisance of other important exogenous factors, be they political, social or economic.

The RWAs liaised on a bilateral basis with ministers and officials at the DoE. The main aim of these interactions was to agree ceilings on borrowing and charges. Once agreement was reached on the total financial package the RWAs were free to allocate resources as they wished. The authorities had a considerable degree of autonomy to determine their objectives, albeit with a relatively strict financial framework. As the late Sir Gordon Jones, the former Chair of Yorkshire Water plc, stated:

although my experience of the Public Sector is limited to about five or six years in Yorkshire Water, the degree of Government interference in the water industry was quite low, and we were left on a fairly loose rein subject only to severe financial constraints on how much we could borrow. There were, of course, second order targets, such as reductions in operating costs, numbers employed, disposal of assets and the like, but they were fairly minimal: in addition, there were nudges about charges, but no explicit directives. (quoted in Maloney and Richardson 1995, p. 47).

Any wider participation in the policy-making process was largely cosmetic: consumer and conservative councils in each administrative region comprised interests such as, local authorities, industrial and agricultural interests and voluntary associations (for example, recreational and environmental associations). However, major producer groups such as the CBI and the NFU showed little enthusiasm for these 'official' fora and continued to directly lobby the RWAs. In 1984, the then Chair of the Southern RWA said, '... we have regular meetings with groups like the NFU, the CLA and

the CBI ... so that's going on irrespective of the consultative councils ... I can't speak to every bloody shopkeeper' (quoted in Saunders 1984, p. 15).

While several agencies were involved in the regulatory process prior to privatization, this regime was less complex (and less rigorous) than the post-privatization structure (see figure 1, above). The European Community (EC), Her Majesty's Inspectorate of Pollution (HMIP) and Local Authorities all had water and/or sewage responsibilities. However, the RWAs were the key regulatory actors: they set charges and enforced environmental directives – having the power to prosecute those who breached standards. The principal-agent problem was seen as being 'solved' by the RWAs acting as the custodians of the public interest: there was a generally held view that public organizations (agents) could be trusted to operate in the public interest. In this sense, water was no different from the rest of British public administration. A strongly held public service ethic was thought to be a more efficient regulatory tool than any set of formal institutional rules or laws. Behavioural norms and values were relied upon to produce optimum results in terms of efficient and effective service delivery. The industry was involved in an arms-length relationship with government predicated on what one civil servant described as a basis of *trust* in the industry to do a good (and legal!) job. However, the implementation reality demonstrated that the principal-agent relationship was inherently contradictory because the RWAs were the cause of some of the worst pollution from their own sewage treatment works: *de facto* they were poachers who made unconvincing gamekeepers.

Regulation under the public ownership model was further confused by the operation of Whitehall pluralism within which the industry's lead department, the DoE, and its financier, the Treasury, followed divergent paths. The DoE pressed for more resources to enable the industry to meet environmental obligations, in particular EC Directives. The Treasury framed its position on investment levels and its charging policy on the basis of macroeconomic concerns (for example, the Public Sector Borrowing Requirement).

The remainder of this article outlines the 'new' regulatory structure established post-privatization and the evolving regulatory game. What impact has the division of the gamekeeper/poacher roles had on regulatory politics? It assesses the impact of the institutional structures on the pattern and shape of actor interactions (that is, the relationship between both the regulatory authorities and the regulatees *and* the main regulatory agencies). How have the regulatory authorities interfaced with the diverse range of actors involved in the regulatory game? It examines the nature and shape of the broad-based constituencies of interest active in the sector. And finally, it discusses the difficulty in characterizing regulatory politics in the post-privatized era.

PRIVATIZATION: THE PUBLIC MANAGEMENT OF PRIVATE BUSINESS?

Economic regulation

Water privatization differed fundamentally from those it succeeded. Water is a natural monopoly *par excellence*. The sunk costs involved in the 'established local network of pipes and sewers' mean that it is not 'economic for potential competitors to install rival networks'. Consequently, economic regulation is likely to be permanent, rather than a case of 'holding the fort' until meaningful competition arrives (Littlechild 1988, pp. 44–5). The water industry was privatized partly because of the Conservative governments' belief that a regulated private monopoly was preferable to a publicly owned one (Vickers and Yarrow 1990). The maxim was 'Competition where possible, regulation where necessary' (Kay and Vickers 1988, p. 287).

There are essentially two economic regulators – the Monopolies and Mergers Commission (MMC) and OFWAT (headed by the Director General of Water Services [DGWS]). The main economic regulatory mechanisms are the Water Acts 1989, 1990, 1991, and the Competition and Service (Utilities) Act 1992; the instrument of appointment – which is the licence under which the companies are permitted to operate; and a basic pricing formula for their products and services – RPI (Retail Prices Index)+K.

The MMC's main regulatory duties are in relation to mergers and take-overs, and licensing conditions (that is, setting and changes thereto). The Commission is the regulatory backstop and the ultimate court of appeal for both the DGWS and the water companies. For example, companies can appeal to the MMC against DGWS decisions on the K factors in periodic reviews. (South West Water and Portsmouth Water appealed to the Commission in 1994. South West were given an average ten-year K of +0.5 and Portsmouth a K of –1.5. The MMC adjusted South West's K downwards by 0.5 for 1995/96 and left the remaining nine years at the OFWAT determination. Portsmouth's K remained as set by OFWAT for the first five years, but was changed to –0.5 for the remainder of the review period.) Since privatization, the Commission has also ruled on several proposed mergers and its recommendations have an important effect on the structure of the water sector, the number of competitors, and their ownership. Ultimately, however, it is the Secretary of State who decides if the MMC's recommendations are implemented or rejected (see Maloney 1999 for a detailed discussion of MMC's merger decisions).

OFWAT is a non-ministerial government department headed by the DGWS (Ian Byatt). Through the instrument of appointment the DGWS regulates restrictions on charging, customer interface, levels of service and service targets, conditions on maintenance of assets and disposal of protected land. Initially the DGWS outlined his regulatory approach as emphasizing: a *close consultative relationship* with the industry – 'I shall work with the industry in developing regulatory information' (OFWAT 1991, p.

10); and *transparency and openness* – ‘I am particularly interested in the views of customers and their representative bodies, shareholders, environmental groups, and those of the companies themselves ...’ (OFWAT 1991). He also stated that his primary duty was to ensure that the water companies carried out and financed their functions properly: ‘Subject to that I must protect customers, facilitate competition and promote economy and efficiency’ (*Water Industry Watchdog Sets Out His Stall*, 8 August 1989). More recently, however, as a result of the maturing regulatory game, and coinciding with the change of political administration in May 1997, the DGWS urged the government to make protection of customers’ interests his single primary duty (OFWAT, Information Note No. 26 March 1994, revised December 1997). As discussed in detail below, the reversal of the DGWS’ primary and secondary duties and the changing regulatory approach have a significant impact on the nature of the regulatory game, and OFWAT’s role in it.

Environmental regulation

At privatization an environmental regulator was imposed on the industry as a consequence of: the EC’s insistence on a public body being the *competent authority*; the deluge of opposition to the Government’s initial (1986) proposal to privatize the Regional Water Authorities (RWAs) with their regulatory functions intact; and the then Secretary of State for the Environment, Nicholas Ridley’s belief that the gamekeeper/poacher role could not continue after privatization (see Maloney and Richardson 1995; and Richardson *et al.* 1992, for a full account of both the privatization process and the competent authority issue).

Subsequently, the NRA, Her Majesty’s Inspectorate of Pollution (HMIP), the 83 Waste Regulation Authorities of England and Wales, and parts of the former Department of the Environment, were subsumed within the new environmental regulator, the Environment Agency (EA). The Agency’s main duties and responsibilities include: river quality and the quality of inland coastal waters; land drainage and flood control; management of water resources; fisheries; recreation and conservation; and the improvement and maintenance of non-marine navigation. A high level of continuity has marked the objectives and *modus operandi* of the NRA and its successor body the EA. Lord Crickhowell, the NRA Chair, stated that the Authority’s key objective was to protect and improve the water environment (*The National Rivers Authority – a Powerful New Environmental Watchdog*, 10 July 1989). While Dr Jan Pentreath, the EA’s Chief Scientist and Director of Environmental Strategy, said that, ‘We will always put the environment first. ... We will apply the best science and technology to identify and deal with environmental problems’ (EA Press Release 096/97: 16 September 1996).

Before examining the regulatory game in detail it is worth commenting on the impact of the change of government in the UK in 1997. The new Labour government imposed a windfall tax on the utilities which raised

£5.2bn in total and approximately £1.65bn from the water industry to fund the New Deal employment programme for the young and long-term unemployed. It also laid greater emphasis on the social dimensions of regulation, stating that it intends to ensure that regulation takes account of the needs of disadvantaged consumers, including those on low incomes, as well as securing the legitimacy of regulation, which is vital for the stability of the system (DTI 1998). As demonstrated below, the change in the governing party (and the re-ordering of the DGWS's primary and secondary priorities) has had a significant effect on the politics of regulation – but not the structure. New Labour's general election manifesto accepted the regulatory *status quo*, 'In the utility industries we will promote competition wherever possible. Where competition is not an effective discipline, ... we will pursue tough, efficient regulation in the interest of customers. ... We recognize the need for open and predictable regulation which is fair both to customers and to shareholders and at the same time provides incentives for managers to innovate and improve efficiency' (quoted in DTI 1998, preface).

THE STRUCTURE OF THE REGULATORY GAME

The NRA (and the EA) and OFWAT illustrate the old adage: where you stand depends on where you sit. The former Secretary of the Water Services Association (WSA) Michael Carney (1992) argued that there are two broad regulatory models operating in the water sector: the policing (or *enforcement compliance*) approach and the improvement (or *negotiated compliance*) approach. Enforcement compliance is characterized by regulatory agencies utilizing 'strict sanctions' such as fines and penalties to secure regulatory compliance, and negotiated compliance sees agencies preferencing enforcement mechanisms that allowed them to 'communicate and bargain' with the regulated industry (Hunter and Waterman 1992, p. 408). The evidence suggests that the EA/NRA have tended to adopt enforcement compliance, while OFWAT follows negotiated compliance. However, neither regulator is 'locked' into a single approach – the enforcement and negotiated compliance options are open to (and have been used by) both regulatory authorities.

The main regulatory authorities have also pursued diverging regulatory objectives (and regulatory styles) leading to a significant degree of conflict between the two bodies. Some commentators have seen such conflict as a benefit of privatization – having two regulators with different values, objectives and *modus operandi* is healthy because it exposes issues to public scrutiny and debate. One constant theme in the water debate is the argument about the trade-offs between cost and environmental improvement: *How much improvement? At what cost? Who pays?* In his 1993 report the DGWS stated that, 'The challenge facing all the regulators ... is to achieve prices which reflect the right trade-off between quality and price' (OFWAT 1993, p. 4). The EA has admitted that the major source of potential tension between the regulators was the conflict over costs and environmental improvements,

'... it is not possible to determine a sensible set of environmental policies and constraints within the present framework of five yearly price reviews which relate an excessively political atmosphere'. (The EA also claimed that it experienced much less friction in its interactions with regulators other than OFWAT.) The Agency sees decreasing costs as only one indicator of regulatory success: and that it should also be measured in environmental terms.

Environmental regulators also believe that improvements can be achieved through more efficient management practices, not solely through greater investment. Lord Crickhowell argued that increases in costs may not be as sharp as the industry, or indeed OFWAT, claims:

the (water) industry place the highest possible estimates on all proposed obligations. However, as soon as these obligations are imposed, the Finance Directors of the water companies soon find the cheapest way of meeting the requirements. ... Mr Byatt sees it as his role to talk anxiously about the costs to the consumer, *but his job is not to regulate a fellow regulator. The NRA is not in the business of giving OFWAT an easy time.* (Interview)

Subsequently, Lord Crickhowell's comments have been supported by external Reporters (KPMG Management Consultants and Babbie Group) as well as by OFWAT. In 1997, OFWAT pared down industry estimates of the implementation costs of the EC Urban Waste Water Directive from £9.7 billion to £6.8 billion (ENDS Report 273, October 1997). The Reporters uncovered evidence of information asymmetries closely associated with the principal-agent dilemma. They stated that individual company costings leading up to their main quality costing submissions showed a '... systematic overestimation of the cost ... it is recognized that there is an in-built incentive for a company to submit high estimates' (Section 4.2; quoted in ENDS Report 273, October 1997).

Many disputes involving the two main regulators have been acrimonious and very public. This is quite exceptional in British terms because the decision-making process between such actors normally involves a closed and secret exchange of views within policy community-type arrangements.

NEW AND SOMETIMES CONFUSING CONFIGURATIONS OF ACTORS IN THE REGULATORY ARENA

Regulatory conflict and the continued high political salience of water has encouraged wider participation from a more diverse range of groups (examples being Age Concern England, the British Medical Association, British Plastics Federation, Consumers' Association, Dr Barnardo's Homes, Friends of the Earth, House Builders Federation, Marine Conservation Society, Metal Finishing Association, National Farmers' Union, Royal Society for the Protection of Birds, Surfers Against Sewage, UNISON) and has thrown up new configurations of actors. Sabatier (1993, p. 26) argues

that most policy subsystems contain between two to four important advocacy coalitions. In the water sector regulatory politics had witnessed the formation of two main, but not rigid coalitions – cost and environmental. As the evidence below illustrates, the composition of these coalitions is dynamic, with actors moving in and out depending on the issue, even those actors that may be seen as core coalition participants.

The main regulators have been cultivating (competing) constituencies of interests as heavy supporting firepower. OFWAT established the OFWAT National Customer Council (ONCC) which is composed of the ten chairpersons of the Customer Service Committees (CSCs) and also maintains close contact with other consumer bodies – such as the Consumers' Association, the National Consumers' Council, and so on. These bodies are useful to OFWAT since they add weight to its public stance on consumer issues. For example, the ONCC condemned the price increases suggested in the market plans published by the companies in 1993 claiming that such rises could produce annual water bills of £450 in some areas.

Regulatory authorities find themselves under constant pressure from a variety of actors, but sometimes the most hostile and vociferous challenges come from within their 'home constituency'. For example, groups such as Greenpeace and Friends of the Earth (FoE) have, at certain times, initiated or fuelled critical media reports alleging regulatory inadequacies or regulatory capture of *both* the main regulators. Such criticisms are not necessarily dysfunctional to regulatory agencies' goals. While the NRA may have been irritated and embarrassed by a FoE press release giving it a 21-day deadline concerning pollution from a particular chemical works in Castleford – 'Prosecute or We Will!' (FoE press release 29 April 1993). Lord Crickhowell conceded that, in general, '... noisy environmental organizations, while being hysterical in some of their claims, do perform a useful role for my organization' (Interview). The NRA/EA and OFWAT benefit from vociferous coalitions. Being able to point to the external pressure, even if it is ill informed, is often a very useful bargaining chip in the private negotiations that follow many public debates. As Ripley and Franklin (1986, p. 14) noted, '... bureaucracies charged with implementing programs will ... sometimes take the initiative in helping create and fund the existence and activities of interest groups that will then subsequently lobby for decisions favorable to their interests'. If organizations like FoE did not exist then the regulators would probably try to create them – as OFWAT did with the ONCC.

Clearly, these coalitions are far from harmonious and members are not always seen as performing a 'positively critical' function by regulatory authorities. We also find evidence of coalition mutation. On the consumers' side, OFWAT advocates the introduction of universal metering on an efficiency basis: consumers pay for what they use. The National Consumer Council has opposed metering, seeing the costs of metering as being underestimated by OFWAT and the companies, and as a diversion of resources which would be better spent elsewhere (for example on leakage control).

It has argued for a fixed licence fee. At the same time, environmental groups such as the Council for the Protection of Rural England (CPRE), *overlap* with the (main body of) consumer constituency on the issue of metering. The CPRE shares OFWAT's enthusiasm for universal metering: efficiency is the key consideration. The group is lobbying both for selective metering and better leakage control. Conversely, other environmental groups such as FoE have come out *against* metering. We also find business pressure on government to ensure full implementation of environmental directives. The Environmental Industries Commission, the peak association of the environmental protection industry, has argued that weak regulation and delay in implementing environmental legislation costs its members £2 billion in lost business annually: an unlikely alliance of business and environmental interests.

OFWAT and the water companies have also been fighting rising prices on behalf of the poorest section of society – particularly those in receipt of state benefits. They have made representation to the Treasury and the Department of Social Security (DSS) because state benefits have not increased in line with water charges. Water companies also wish to see change to the rules under which those in receipt of income support are helped to pay their water bills. They want the ranking of water for direct income support (welfare) benefit payment upgraded; currently it is behind housing, electricity and gas. To a certain extent the water companies have been forced to press the DSS and the Treasury because the DGWS has informed them that they must rein in all their bad debt. The companies are likely to suffer through non-payment if those on income support have difficulty in paying their bills, given that approximately 3 million people are in receipt of benefit – all of whom are water customers. The companies' and the regulator's advocacy for the poor has engendered 'more' disputes with environmental organizations because it conflictually juxtaposes environmental objectives *and* redistributive objectives.

The election of the Labour government has increased pressure on the companies in this area. The government has ruled out universal compulsory metering, disconnection and budget payment units which cut off the flow of water for household customers (Department of Environment, Transport and the Regions [DETR] 1998, para. 2.2). At the 'Water Summit' called by the new Labour government after its election victory in May 1997, the Environment Minister, Michael Meacher, stated that, 'People must not be deprived of water because of inability to pay for it' (*Water Services* July 1997, p. 5). The government called on water companies to offer frequent payment options (for example, fortnightly or weekly) without extra cost to the customer, and the development by all companies of charitable trusts (following the lead set by South West Water), to channel a small fraction of turnover to help genuine hard cases (DETR 1998, para. 2.14).

Regulatory authorities have been continually innovative in their attempts to influence policy outcomes. For example, the EA commissioned a

National Opinion Poll (NOP) Social and Political study to carry out a public opinion survey which found that, '... 95% of domestic water customers would prefer to have money spent on environmental projects rather than have their bills reduced'; 59 per cent of customers believed that although the water companies are working towards improving standards they should be doing more; and on average, households would be prepared to pay an extra £3.11 per month to fund improvements (EA Press Release 006/98, 15 January 1998; EA Press Release 123/97, 17 December 1997). In response to the NOP findings, both the DETR and Water UK (the successor industry peak association, previously the Water Services Association [WSA]) commissioned research into customers' preferences and willingness to pay for environmental improvements. The Water UK survey produced similar findings to NOP and is likely that the industry will re-position itself on this issue. (The industry has always maintained that it would be willing to make an even greater investment in raising water quality provided customers are willing to fund improvement.) This is significant because it places the companies closer to the EA stance than OFWAT on the cost versus quality issue. Generally, OFWAT has been seen by many as more sympathetic to the companies than the environmental agencies. Once again we see core actors shifting between constituencies depending on the issue at hand, and principals/policy brokers becoming protagonists in sub-system politics.

Environmentalists have also been innovative in their approach. In 1992, Friends of the Earth took the British government to the European Court of Justice (ECJ) over nitrate levels in England. The Court ruled that the government was guilty of breaching EC rules on drinking water quality because nitrate levels in 28 supply zones in England exceeded permitted limits. The domestic courts have also become embroiled in regulatory politics. Several companies introduced an electronic smart card system of pre-payment for water bills. This involved companies fitting control boxes with valves in customers' homes. The customers are then given smartcards to buy credits from post offices and shops that are automatically transferred to the control box when the card is inserted. The judicial review of the system ruled that the use of these cards was illegal because it contravened the industry statutory code of practice for protecting poor and vulnerable families. The British government has complained that the UK's more vigorous interest groups have caused more legal actions than those in other countries.

The involvement of this varied array of interest groups, business associations, political and judicial actors provides a somewhat abstract canvas: in no way could this collection of actors be described as a policy community or an issue network in the strictest sense. Generally, there are two broad coalitions with the composition varying from issue to issue. Clearly the more open and fluid nature of the British regulatory process strongly resonates with the maturer American regulatory system. In the US, decision-making is characterized by extensive participation by 'public lobby groups'

demanding more extensive programmes and greater regulatory control. Such 'core-less' policy-making arrangements in the UK (and the US) make a single characterization of the regulatory process difficult.

REGULATORY RESOLUTION – OSCILLATING BEHAVIOUR: TWO EXAMPLES

The 1991 EC Urban Wastewater Treatment Directive

A spectacular example of episodic behaviour occurred over the actual cost of implementation of the 1991 EC Urban Wastewater Treatment Directive (which came into force on 30 November 1994). In its (1993) paper, *Paying for Quality: the Political Perspective*, OFWAT argued that the cost of cleaning up Britain's water had become 'unacceptable', and that the government should reduce it by renegotiating or relaxing water quality standards. It claimed that full compliance with the EC directive would cost approximately £10 billion, when the original estimate was £2 billion. Predictably, the NRA claimed that OFWAT had exaggerated the problem and provided misleading analyses of the issues, and that government's responsibility was to ensure that environmental improvements flow from privatization.

In the public forum OFWAT won governmental backing. At the EC finance ministers meeting in November 1993, the then Chancellor of the Exchequer, Kenneth Clarke, called for a delay in complying with the Municipal Wastewater Directive on the grounds that the costs of compliance within the current time limits were unacceptable. Mr Clarke accepted OFWAT's figures, as did the Secretary of State for the Environment, Mr Gummer. In response to a written question on safety and environmental standards, Mr Gummer said that '... we must strike the right balance between the pace of quality improvements and costs, so that people do not face excessive bills in the short term', and that he intended to '... sound out EC partners to see if the urban waste water directive could be modified' (House of Commons Debates 19 October 1993). Predictably, environmental groups said they were disappointed that the minister had followed the general OFWAT line. FoE accused the government of allowing the DGWS to dictate policy.

The public exchanges represented the phoney war and initial bargaining positions of the belligerents. The conflict was eventually resolved in a more traditional manner – in private. Throughout the summer a quadripartite group of the DoE, the NRA, OFWAT and the Water Services Association eventually resolved the question of cash estimates and did so by treating it as an essentially bargainable matter. The public conflict had an important influence on the private negotiations: it forced a closer examination of some of the issues by members of the quadripartite group. As Lord Crickhowell (1993) noted, one consequence of the vigorous public debate over costs was that 'much valuable new information has been revealed and increasingly we are finding common ground'. In the event OFWAT reduced its estimates

significantly from the £10 billion projection to an actual capital cost of £6.8 billion.

Following this exercise, work continued on a more detailed level, company by company, producing cost estimates that were broadly agreed by all participants. Effectively, the game shifted from the public to the private level, at which point some kind of policy community, in the traditional model emerged, consisting of only four or five key actors. The network disaggregated the various controversial problems and resolved them as a series of smaller less contentious issues.

The 1994 Periodic Review

A similar process of bargaining, negotiation and disaggregation of difficult issues took place during the first Periodic Review – namely, the setting of the ‘new’ K factors. Again, contrasting images can be presented. *Publicly*, the DGWS took great pains to deny that bargaining was a common feature of OFWAT’s approach. *Privately*, the evidence suggests otherwise. Detailed discussions were held with each company prior to publication of OFWAT’s decisions. In almost every case the draft K factors distributed to the companies in May 1994 were revised upwards at the final announcement in July. It has been suggested that several companies negotiated *better* Ks at that late stage in timetable in order to steer them away from MMC referrals. Generally, the companies (or more accurately 9 of the 10) perceived the periodic review as yet another good deal and the DGWS received heavy criticism, being accused of having ‘too cosy’ a relationship with the water companies and being too eager to achieve a consensual outcome. Even the *Financial Times* (29 July 1994) described the 1994 Periodic Review as ‘Watered Down Regulation’. OFWAT was also attacked by many in its home constituency (consumers) for the annual price rises. Somewhat tellingly, the City reaction was seen as one of satisfaction.

Irrespective of the DGWS’ protestations that OFWAT is not involved in a bargaining process, the Finance Director of Welsh Water, Paul Twamley, stated that ‘... this is a negotiation’ (*Financial Times*, 29 July 1994). Water regulation operates under ‘... the shadow of the law’ and outcomes are the result of ‘... a complex interaction between politicians, civil servants, industry, consumers, interest groups and regulatory bodies’ (Veljanovski 1991, p. 13). This also confirms Ripley and Franklin’s (1986, p. 219) claim that bargaining is omnipresent, ‘Even in protective regulatory policies, which represent the clearest case of what, in theory, should look like command and control ...’.

THE CERTAINTY OF AN UNCERTAIN FUTURE: EXPLAINING A PARADOXICAL GAME

Explaining regulatory interactions is not an easy or straightforward task. This article has, with a high degree of certainty and unambiguity, illustrated the uncertainty and ambiguity endemic in the water sector. The regulatory

space can be characterized as follows: as exhibiting a high degree of instability and fluidity; having regular availability for occupation; and an area which is subject to furious contest within which minor and major participants vie for key positions (see Hancher and Moran 1989). Essentially, regulatory policy-making appears to oscillate between episodes of conflict and consensus. On some occasions there are high levels of inter-agency conflict, as well as conflict between the regulators and regulatees (with the threat, and in some instances the use, of legal sanction), as well as a more fluid pattern of interaction involving a diverse and wide range of actors. At other times the process can be characterized in a more exclusive manner by detailed and 'professionalized' bargaining and negotiation along the preferred British policy style (policy community-type politics). However, even within these more restricted policy-making structures some of the key players are responding to, and to a degree articulate, the interests of their 'home' constituencies of groups in the public game. Each player perceives itself as having obligations (often statutory) and specific objectives, and attempt to mobilize support from its 'own' network of groups and organizations if and when required.

That the implementation process defies simplistic uniform characterization is neither surprising nor unique: it is consistent with US evidence. For example, both Wilson (1980) and Ripley and Franklin (1986) characterize the implementation of regulatory policy as volatile and uncertain. For example, Ripley and Franklin (1986, pp. 154–7) concluded that:

There is no single pattern of relationships linking a regulatory agency with its outside clients and interested parties. Patterns vary between agencies at any given time, and the same agency may well relate to outside forces in different ways at different points in time. ... Protective regulatory implementation is inherently volatile. It is controversial, and it is highly visible both to those who feel cramped by it and to consumer and environmental groups that also view themselves as guardians of zealous implementation. The volatility is evidenced by shifting alliances, bursts of vigorous activity on the part of various actors followed by relative calm, and shifting policies at the level of statutes and regulations.

The relatively high level of conflict within the water regulatory system is the result of several other factors. First, the regulatory structure was designed (whether intentionally or unintentionally) with institutionalized conflict in-built. Secondly, the main regulatory agencies possess different values, further accentuating instability. Indeed, the cleavage between the two organizations has opened-up the policy process, and has allowed greater participation from a wider range of groups than would be the case under (normal) standard operating procedures. Thirdly, the industry has been subject to 'heavier' regulation in the private sector with regulatory authorities interfering in the activities of the privatized utilities a great deal more than the sponsoring departments ever did under the public owner-

ship model. Both regulators (OFWAT and the NRA/EA) have set themselves the objective of levelling the playing field, believing that the industry achieved a 'generous deal' at the time of privatization. Consequently, there has been a consistent '...tightening of the regulatory corset' (Veljanovski 1991). OFWAT has championed consumers – who were excluded from the privatization negotiations – and the NRA has defended environmental interests. Fourthly, the fact that the regulatory contract was loosely specified at the time of privatization left a great deal of discretion in the hands of the regulators.

Finally, within the regulatory game regulatory agencies do not simply act as third party policy brokers arbitrating and facilitating accommodation and compromise between interested actors. They are significant protagonists in an iterated implementation process. This, and the ephemeral alliances outlined above, illustrate a messiness and shifting implementation subsystem which would have been inconceivable 15 to 20 years ago. Essentially, there are two broad mutating coalitions whose composition varies depending on the issue being considered – indeed, the shakiness of their foundations is such that on occasions core constituency participants 'defect' and join the 'opposing side'. This pattern seems firmly set. Consequently, regulatory politics is likely to continue on an unpredictable, sometimes conflictual and sometimes consensual, basis for the foreseeable future.

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EUROPEAN FORUM



NATIONAL ENVIRONMENTAL MINISTRIES: MANAGERS OR CIPHERS OF EUROPEAN UNION ENVIRONMENTAL POLICY?

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European political integration has added a new and exciting dimension to the study of national political and administrative systems. However, comparatively little is known about the precise role of national ministries of state in either facilitating or retarding the shift towards joint rule making at the European level. Taking as an example the UK Department of the Environment's (DoE) involvement in the cumulative development of EU environmental policy since 1970, this paper examines the extent to which national environmental departments manage the process of integration or whether they are dragged along by it. It concentrates on the DoE's role in negotiating the 1987 Single European Act. It suggests that integration in the environmental sector since the Act has proceeded significantly further and faster than British negotiators originally expected, though through little conscious effort by the DoE. In fact, the DoE strongly opposed the introduction of majority voting, but was overruled by the core executive. These findings are examined against two theoretical approaches to European integration in order to reach a fuller understanding of what motivates (parts of) the British state to limit national autonomy in the process of developing European environmental rules.

The days are long gone when only a handful of Departments...had to worry about the [EU] and its doings: almost every Department of the civil service now... has to deal with [European] issues. ... This relation-

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ship will clearly continue to grow, and I believe *the gradual effect of interacting closely with other European bureaucracies will be profound.*

Butler 1993, p. 406 (emphasis added)

EUROPEANIZATION AND EUROPEAN INTEGRATION

To recall the words of the former Head of the UK Civil Service, Sir Robin Butler, above, European political integration should have added an exciting new dimension to the study of national political and administrative systems. To an extent it has, but large gaps still remain in our understanding of the long-term impact of European integration on the institutions (as distinct from the policy-making processes and party politics) of the Member States of the European Union (EU) (but see Meny *et al.* 1996; Rometsch and Wessels 1996). The emerging consensus is that Europeanization has produced a 'lower profile' shift in the 'operating procedures and administrative values' of UK central government, but has not fundamentally challenged the Whitehall model of central government (Bulmer and Burch 1998a, pp. 601, 625). This paper concentrates less on the Europeanization of national systems and more on the flow of influence running in the opposite direction (i.e. the extent to which national institutions either facilitate or retard European integration at the supranational level) although, as will become evident, the two are subtly interconnected. Taking as an example the UK Department of the Environment's (DoE) involvement in the cumulative development of EU environmental policy since 1970, this paper asks whether national departments succeed in managing political integration in their respective policy sectors, or whether they are continually dragged along by it, reacting constantly to unforeseen circumstances and unexpected contingencies.

Our understanding of these relationships has been hampered by the 'great divide' (Caporaso 1997) between domestic and international approaches in political science. However, the long-lasting and deep-seated political transformation which has been taking place in Europe since the 1950s has forced analysts to trespass across long-standing analytical boundaries in search of new models and explanatory devices. One enduring effect of this schism is the limited attention paid to the European activities of national ministries of state. National departments meeting in the Council of Ministers (CoM) represent *the* primary link between national and European policy-making, but their precise role is still not fully appreciated or understood. The enduring popularity of highly aggregated models of the state – which assume that national politicians and bureaucrats work hand in hand to achieve a set of exogenously derived 'state preferences' – has been a particularly important obstacle to scholarship. In particular, 'new' realist-based approaches tend to treat states as undifferentiated wholes, rather than as loose collections of competing organizations (Rhodes 1997).

The remainder of this paper is divided into four sections. The first part identifies national ministries as important, but greatly under-researched

actors in the EU. The second part sets out a series of predictions about their behaviour drawn from influential streams of integration theory, one state-based the other more process-centred. The former regards states as unified entities fighting to attain their 'national interests' in European fora, the latter as an amalgam of different actors that compete within different institutional contexts to achieve their bureaucratic role interests. Following this, part three documents empirically the role of the DoE in the period prior to, during and after the signing of the 1987 Single European Act. The fourth part examines these findings against the theoretical predictions in order to reach a fuller understanding of what motivates (parts of) the British state to pool national sovereignty in the process of developing European environmental rules.

ORIENTATION AND FOCUS

The broad focus of this paper is the changing structure and behaviour of the UK DoE (since 1997 the Department of the Environment, Transport and the Regions (DETR)) in the period since the early 1970s when the EU first began to develop an environmental policy. Over 25 years of integration in this policy sector have created a complex, multi-level environmental governance system, spanning a wide variety of policy instruments and organizations (Jordan 1999a). Today, most national environmental legislation in Europe is either driven directly by, or developed in close association with, EU legislation (Jordan 1998). However, for reasons which will become clearer, this paper is mostly concerned with the DoE's input to the intergovernmental conference (IGC) that culminated in the first (and, it is often claimed, the most significant) alteration to the founding Treaties of the EU, namely the 1987 Single European Act (SEA). Today, the SEA is recognized as having laid the cornerstone of the EU, by energizing integration across a suite of hitherto moribund policy sectors. Crucially, the SEA introduced three important changes to the institutional rules governing EU environmental policy making. It: (1) provided an explicit legal base (namely Article 130r, s and t) in the Treaties; (2) introduced qualified majority voting for proposals linked to the completion of the internal market (Article 100a); and (3) granted the European Parliament the power to formally co-operate with the CoM in policy making.

In spite of the supposed importance of the SEA, there is still some confusion surrounding the provenance of its environmental provisions. One highly respected observer simply argues that 'the agitation of environmental bodies and others was transmitted via the European Parliament and resulted in a new treaty title on the environment' (Haigh 1998, p. 68). This paper therefore has the subsidiary aim of offering a slightly more detailed and nuanced account of events leading up to and immediately beyond the signing of the Act.

Why does the DoE's role merit closer attention when there are many (currently 15) 'environmental' departments in the EU? There are three

reasons for treating it as a critical case of European integration. First, the UK has traditionally approached European negotiations with great scepticism. With a relatively strong, centralized bureaucracy and tough internal co-ordinating mechanisms (Metcalf 1994), the UK has a deserved reputation for administrative excellence which is the envy of many other EU states (Wallace 1995). As one of the three largest states in the EU, we would not therefore expect UK negotiators unwittingly to lock themselves into an open-ended process of political integration, or expect one department (e.g. the DoE) to use the EU to gain leverage over other departments by acting unilaterally in Europe.

Second, numerous studies have demonstrated the capacity for integration to proceed informally in the period between the main Treaty alterations. However, these studies are dismissed by critics as 'anecdotal' on the grounds that they cover sectors where policies are 'designed to diffuse resources' away from central government (e.g. regional policy) (Moravcsik 1994, p. 53). This paper therefore takes up Moravcsik's challenge to sample 'essential structures [i.e. UK central government] and major policy decisions [i.e. the SEA IGC]' (ibid., p. 52).

Third, Treaty revisions are large, set piece events dominated by states. They are organized in accordance with the 'unicity' principle that all discussions are strictly subservient to the Heads of State meeting in the European Council. According to a participant in the Amsterdam Treaty IGC, '[w]hat mattered... was not what, say, Environment Ministers said to each other [in the Environment Council], but rather how each Environment Ministry influenced the position taken by his own delegation within the negotiations themselves' (McDonagh 1998, p. 208). In other words, they are *precisely* where we would expect to find states acting rationally and coherently. This is because the dominance of the 'core executive' (Rhodes 1995, p. 12) in IGCs, underpinned by the 'unicity' principle, should leave little scope for individual departments to 'go beyond their brief' by fighting to realize their own sectoral interests in Europe against the wishes of cognate departments at home (for examples, see Stack (1983, p. 149), Haigh (1995) and Barnett (1982, p. 133)).

Taken together, these three features of the case study should lead us to find strong evidence of state control throughout the IGC feeding through to a set of outcomes that are broadly in line with those sought by national negotiators. Therefore, to find evidence of supranationalism, poor internal co-ordination of state policies, and significant unintended consequences, would deal state-based theories a serious blow on their 'home domain' (Alford and Friedland 1985, p. 3).

STATE-BASED ACCOUNTS OF EUROPEAN INTEGRATION

The 'holy grail' of integration theory is still to establish whether states, acting either individually or collectively, control the process of integration, or whether it escapes their clutches in important respects. Popular theories

of the EU offer very different responses to this question. State-based theorists such as Moravcsik contend that states are essentially in control of the process and largely unaffected by it:

the [EU] has developed through a series of celebrated intergovernmental bargains, each of which set the agenda for an *intervening period of consolidation*. The most fundamental task facing a theoretical account of European integration is to explain these bargains. (Moravcsik 1993, p. 473) (emphasis added)

Moravcsik's liberal inter-governmentalism (LI) assumes that throughout the history of the EU, political leaders have pursued integration in order to secure their national economic interests. Five of its guiding assumptions are noteworthy:

- (1) States direct the process of integration: the bargaining between them more or less determines the course of integration.
- (2) States are rational, self-interested actors and their preferences are determined by domestic, societal forces. However, domestic political systems are biased against diffuse interests. A state's core task is first to aggregate national societal preferences (the 'L' in LI) then take them to the international level, where the required policies are supplied through inter-state negotiation (the 'I' in LI).
- (3) States keep the gate between national and international politics: despite the explosion of lobbying in Brussels, national channels of representation are pre-eminent.
- (4) States enjoy little flexibility in making concessions beyond their own domestically determined preferences: this drives EU agreements towards the lowest common denominator of state preferences.
- (5) Integration strengthens the state: states use the EU as part of a 'two level game' to overcome domestic opposition and push through policies that might otherwise have been blocked ('slack cutting').

More recently, Moravcsik (1994, p. 47) has substantially developed the last of these points to argue that national governments purposively exploit the EU to 'manipulate their own domestic constituents into accepting common policies'. By organizing themselves into 'executive cartels', national leaders trade state sovereignty for no obvious societal benefit other than to simply enhance their autonomy at home (*ibid.*, p. 3).

LI has been subjected to much criticism (see Wincott (1995) and Peterson (1997)). First, it assumes that states function as a 'single agent' in Europe rather than amalgam of different, and very often competing, organizations (Moravcsik 1994, p. 5). This is a credible enough assumption to make if one is (like Moravcsik) looking *solely* at IGCs, but it becomes more questionable when the focus is shifted to the day-to-day process of developing and implementing specific policies. Second, a number of key terms and concepts underpinning LI are unclear (for example, 'state', 'state executive', 'national

leader'). It is clear that Moravcsik (1994, p. 4) is mainly concerned with the head of state ('chief executive') or Minister in a particular issue area but, as discussed below, this risks overlooking the longer-term impact of bureaucratic inter-penetration in the EU. Rather confusingly, 'societal groups' are said to comprise interest groups and political parties, but also civil servants and other cabinet ministers. In other words, having assumed the state is unified, he promptly dis-aggregates it! Third, the conditions under which slack cutting arises are very poorly theorized. On the one hand state preferences are said to be determined domestically. Yet when these constraints are 'loose' the executive can 'shirk' tasks and pursue 'her preferred policies' in Europe (*ibid.*, p. 5). According to the definitions supplied above, this could conceivably include one Minister going beyond her brief, although only by undercutting one of the central tenets of LI: state coherence. There is another important aspect to this: if societal groups do not determine state preferences where do they come from? Finally, in spite of the 'slack cutting' argument, LI still struggles to explain why states/state executives, which (under an earlier elaboration of the model) are pre-occupied primarily with 'safeguarding their countries against the future erosion of sovereignty' (Moravcsik 1991, p. 27), are progressively undermining their own existence by diffusing state authority to other actors.

THE BIGGEST BANG IN EUROPEAN ENVIRONMENTAL POLICY: THE SINGLE EUROPEAN ACT?

Moravcsik claims that integration proceeds 'as a "sequence of irregular big bangs"' (Moravcsik 1998, p. 4) rather than cumulatively and irreversibly through a series of feedbacks. State-based accounts, such as LI, typically display little interest in day-to-day policy development. Instead, individual policy sectors are simply *assumed* to develop within the terms of the big bangs, that is the periodic IGCs, of which three have occurred during the lifetime of the EU (the SEA, Maastricht and Amsterdam). IGCs are convened when a majority of states decide they want to amend the founding Treaties of the EU. They are normally steered by foreign ministers, but most of the technical detail is thrashed out by small teams of national representatives working in small committees.

The SEA IGC ran for just two months between early September and December 1985. The agenda was dominated by two issues: (1) the Commission's plans for an internal market; (2) measures to streamline joint decision making (i.e. the introduction of qualified majority voting (QMV)) and the addition of new competences to the Treaty (e.g. the environment). In one of the most exhaustive analyses undertaken within the inter-governmentalist canon, Moravcsik (1991) argues forcefully that the outcome, the SEA, represented the lowest common denominator of state preferences. In 'all other cases other than the internal market', the lack of consensus among the big three states whittled the content of the SEA down to 'a minor or symbolic level'. Because of this 'the British were most satis-

fied with the final outcome' (ibid., pp. 42, 49), the only obvious major exception being the extension of QMV to internal market issues. Environmental issues without an internal market dimension would, Moravcsik continues, remain under unanimity rule (ibid., p. 43). Contrary to other accounts, he portrays the Commission as an insignificant player, although he credits it for having 'quietly slipped' in new Treaty powers relating to the environment and technology (ibid., p. 46). But this exception does not, he claims, undermine his overall argument, namely that it was precisely *because* environmental issues were already being addressed informally by the EU, that states accepted the need for a clearer codification of the allocation of competences (Moravcsik 1998, p. 374).

Golub's (1996) state-based account of the environmental provisions of the SEA confirms many of Moravcsik's claims but qualifies a number of others. He emphatically denies that the environmental provisions were not properly discussed by heads of state or that they were quietly 'squeezed in' by the Commission. To the contrary, Britain, he claims, accepted codification because she believed it not only accounted for, but actually codified, her own unique environmental policy style and long-term economic interests in European law (ibid., p. 714). British negotiators calculated that most proposals would be based upon Article 130 where the need for unanimity would grant them a veto over the development of policy, rather than Article 100 where QMV would apply. Finally, he finds no clear evidence that the DoE breached the Cabinet principle of collective responsibility by using the IGC to secure higher environmental standards against the wishes of cognate departments at home.

Empirical accounts of the IGC confirm the broad gist of his argument. During the proceedings, the UK did direct its energies at placing a number of conditions on the use of Article 130r to render it a quiet cul-de-sac for parking some of the Commission's more grandiose proposals. However, Golub fails to provide a convincing riposte to the charge that '[i]t is almost always possible, *ex post*, to posit some set of Member-State preferences that reconciles observed outcomes with the image of near total member-state control' (Pierson 1996, p. 125). First he claims that intergovernmental models explain the outcome of the IGC (Golub 1996, p. 723), only then to concede (ibid., p. 722) the existence of longer-term consequences which 'somewhat disproved' the UK's expectations. He also maintains that the UK 'secure[d] a number of favourable amendments' to Commission proposals post-SEA, but does not adequately specify the source and form of the UK's *a priori* preferences.

A PROCESSED-BASED VIEW OF INTEGRATION

The idea that integration is capable of moving steadily beyond the initial preferences of Member States and gradually imposing constraints on their ability to fight back, is consistent with more process-based theories of EU integration (namely (neo)functionalism and historical institutionalism).

These see the 'grand bargains' as political resultants that simply codify what has already taken place; integration, in other words, occurs during the *intervening* periods. On this view, states – to borrow a Marxian phrase – make intergovernmental decisions at IGCs but in circumstances not entirely of their choosing. Process-based theories take a more actor-centred view of politics. So, rather than treating states as though they were rational, calculating actors with anthropomorphic capacities, a dis-aggregated or 'actor centred' (Marks 1996) approach emphasizes the bureaucratic divisions within and between the formal organizations of the EU (Peters 1992). In stark contrast to the tenets of classical realism, such an approach visualizes states as brittle and somewhat fissile entities. It treats actor preferences as artefacts deserving closer empirical analysis, rather than residuals to be simply 'read off' from their institutional position (Peterson 1999, p. 58). This in turn raises interesting questions about what actually motivates actors in different institutional contexts rather than taking their interests as given. For example, European integration may well further the short-term interests of particular departments, political leaders or civil servants, but for a process-based approach the crucial question is does it gradually and substantially weaken the control exerted by the 'state' in the longer-term? Marks (1996, p. 35) usefully reminds us that the gains from inter-state co-operation are reaped by living and breathing *actors* not 'states'. Finally, a process-based approach problematizes the term state 'interest': sovereignty is regarded as being fluid and transferable: '[n]ational interests will be defined differently on different issues, at different times, and by different governmental units' (Keohane and Nye 1989, p. 35). Instead of assuming *a priori* that every part of the state has as its overriding goal the defence of national sovereignty, it emphasizes the need for 'empirical analysis of the goals of key decision makers and the [institutional] constraints under which they pursue those goals' (Marks 1996, p. 24). The next part of this paper offers just such an analysis centring on the DoE's role in the SEA IGC.

Traditionally, process-based accounts have tended to emphasize the activities of supranational agents such as the Commission and the European Court of Justice (ECJ), both in shaping the context of the negotiations (Wincott 1995) and the overall course of the IGC itself (Dinan 1998, p. 29). However, the appearance of LI has forced advocates to better account for the activities of national actors. (Neo)functionalists offered the first systematic account of loyalty transfers in this regard. They laid great stress on the role of political spillover or *engrenage* (literally 'meshing in'), which occurs as actors from different national bureaucratic settings interact and, in so doing, re-adjust their preferences by 'learning' how to work together in new, supranational institutional contexts. However, neofunctionalists greatly underestimated actors' allegiance to their national agencies and the 'tightness' of national co-ordinating mechanisms.

More recently, Marks (1996, pp. 24–7) has argued that national actors surrender sovereignty because they: want to achieve short-term objectives

(e.g. winning elections, securing party unity and achieving other policy goals (e.g. rolling back the state)); may wish to win conflicts against domestic groups (e.g. by parachuting in EU policies instead of battling to achieve the same goals through national action); find that auditing the dispersal of power to the EU is difficult: once it has gone, it cannot easily be recaptured. In order to explain the last of these points, Marks draws upon Pierson's Historical Institutional (HI) theory of unintended consequences. HI accepts that state actors may be important at the point when policies and institutions are first created. But he shows that joint policies soon begin to take on a life of their own, structuring and, on occasions, constraining the policy terrain upon which they try to alter existing policies and adopt new ones. In contrast to LI, the process-centred approach therefore emphasizes the important role played by what Helen Wallace (1999, p. 158) terms 'irrationality, confusion and mistaken judgements' in shaping integration. Pierson offers four reasons to explain their appearance:

1. *State executives have short time horizons*: politicians are under electoral pressure to agree to policies with short-term pay-offs even when there is the possibility of long-term costs and a loss of control.
2. *State preferences are not fixed*: when looked at historically, states regularly change their preferences as a direct result of their involvement in the EU.
3. *Supranational policy making is complex*: state executives find it difficult to anticipate the long-term consequences of delegating authority to the EU.
4. *Supranational actors enjoy partial autonomy from states*: they are always looking for opportunities to extend their power and autonomy by exploiting gaps in state control.

He also identifies three reasons why states find it difficult to regain control of policies that have become locked into an unfavourable path:

1. *Resistance by supranational agents*: who have their own resources and independent conceptions of integration.
2. *Decision rules (e.g. unanimous voting) produce a ratchet effect* which binds states together making it difficult to undo or revise the *acquis*.
3. *Societal adaptation*: this indirectly influence state behaviour through such mechanisms as domestic pressure group lobbying, and so on.

NATIONAL ACTORS, SUPRANATIONAL INSTITUTIONAL CONTEXTS

Pierson's process-based approach is undeniably institutional, but it also allows for conscious human agency by showing how an actor's behaviour is conditioned, and on occasions shaped by, the institutional terrain on which they operate. Four institutional features of the EU stand out in this regard. First, the EU is a highly differentiated governance system and the

institutional venues in which actors interact is tremendously important. During IGCs, states are represented by their core executives, but on issues of 'low' politics, such as the environment, Ministers of States take the lead. When we move down another level to the most humdrum issues, such as the negotiation of a particular Directive, we find that European negotiations are mostly handled by middle-ranking civil servants from particular departments with very little direct input from elected politicians. These horizontal stratifications are intersected by vertical divisions between the departments of state. The segmented pattern thereby produced is said to favour specialists (e.g. functional departments) over generalists (e.g. the core executive) (Peterson 1997, p. 5). In the environmental sphere, the former Director General of Environmental Protection in the DoE (1990–95), Derek Osborn (1997, p. 15) remembers that the 'function-led dynamic' of the Environment Council was 'strongly pro-environment, and several Member States [were] thereby encouraged to make better progress than they would do by themselves'. In short, the institutional context of action *matters*.

Second, if the complexity of decision-making at the national government level militates against effective lateral co-ordination (Peters 1998), then the problem is many orders of magnitude more difficult in the multi-level, multi-state structures of the EU. Quoting one MEP, Peterson (1997) claims that 'Ministers are just too busy and the capacity to scrutinise proposals just doesn't exist'. Policy making is deeply sectorized and cross-cutting parliamentary scrutiny at the national level remains weak and sporadic.

Third, actors within a single organization such as the DoE in Britain are likely to exhibit a range of views on Europe, which will, in part, be determined by the manner and extent of their engagement with European policy processes. For example, the potential for members of European policy networks (including departmental officials) to adapt their activities and expectations to the conventions and norms of the network is well documented (Peterson 1997; Peters 1997). Hayes-Renshaw and Wallace (1996, p. 15) probably exaggerate the influence of bureaucrats when they suggest that '70% of all EU decisions are taken in technocratic working groups', but Peterson's (1997) central insight – that politicians who make the 'big bang' decisions do not participate in the day-to-day process of EU governance – is an important one.

Finally, national actors have to reconcile the perceived need to reach compromises with partners in EU policy networks with the obligation to follow a departmental line in Cabinet. In spite of the strong co-ordinating mechanisms, the UK Cabinet is not always capable of dealing with the full range of topics discussed by Ministers and their officials in Europe to the detail needed fully to define and monitor a national negotiating position through the full cycle of policy development and implementation. Departments have to be granted some leeway. In theory, this leaves room for what Keohane and Nye (1989, pp. 41, 43) term 'transgovernmental relations' to develop. These arise when sub-units of government 'act relatively auton-

omously from higher authority in international politics'. In effect they 'build coalitions with like minded agencies from other governments against elements of their own administrative structures' (ibid., p. 44). In Britain in general and during IGCs in particular, the strong internal co-ordinating mechanisms operated by the Cabinet and Foreign Offices normally preclude this. However, the DoE's internal handbook on negotiating in Europe reveals that there are equally powerful mechanisms controlling day-to-day decision-making:

The rationale for keeping other [departments] informed ... is to try to avoid the introduction of new objectives to the UK position towards the end of a negotiation. ... [I]t may take considerable time and effort to have to do the thinking for other Departments but it is likely to pay dividends both in achieving your policy aims and avoiding major hassles in the end-game of the negotiations. (Humphreys 1996, pp. 37–8)

In relation to all four of these characteristics we can envisage control varying along a continuum from state-centred (strong) at one end to multi-actor (weak) at the other.

THE SEA IGC

Origins

Lack of space prevents a detailed discussion of why the then 12 Member States agreed to the fundamental overhauling of the founding Treaties. Suffice to say that the SEA brought to an end a decade and a half during which integration ground to a halt in most sectors. The British support was absolutely vital to the realization of the single market. But a single market was *all* that Mrs Thatcher wanted, not an open-ended IGC which she feared would lead inexorably to 'uncontrollable institutional ventures' (Young 1998, p. 330). However, she nonetheless allowed herself to be 'bulldozed' (Thatcher 1993, p. 551) into accepting just such a conference at the June 1985 Milan European Council by a majority of states who saw deeper political integration as a necessary antidote to internal market reform (Gowland and Turner 2000, p. 261). In her autobiography, she comes perilously close to admitting to have been simply swept along by the tide of events:

The pressure from most other Community countries, from the European Commission, from the European Assembly, from influential figures in the media for closer cooperation and integration was so strong as to be almost irresistible. (ibid., pp. 547–8).

The informal development of the environmental *acquis*

These were the 'high' politics that triggered the IGC. In order to fully appreciate how and why the environment entered the negotiations, we need to go back to the early 1970s and investigate the gradual development

of EU environmental policy. At its founding in 1957, the EU had no environmental policy, no environmental bureaucracy and no environmental laws. Nonetheless, an environmental *acquis* of sorts began to develop, growing more rapidly in the 1970s and 1980s. As is so often the case, the Commission played an instrumental role, using the 'catch all' powers of Article 235 to move into areas such as nature conservation and drinking water that were tenuously linked to the logic of creating an internal market (Jordan 1999a, b).

In the UK, the DoE, which had been created in 1970 to better co-ordinate environmental policies, was not fully attuned to the incremental development of the *acquis*, being neither strongly pro-environment nor pro-Europe in its focus. In spite of its name, the DoE's historian claims that 'the environment' was not a determining factor in its creation (McQuail 1994a, p. 17). In 1980, just 3.2 per cent of the total staff serviced environmental functions (McQuail 1994b, p. 3). Like most other departments of state, the DoE had great confidence in the ability of existing structures and procedures to adapt smoothly to integration (Wallace and Wallace 1973, p. 261). Although parts of the core executive were committed to Europe, Willis (1982, p. 25) suggests that 'in Whitehall opinions were divided and "neutralism" towards the [EU] was sometimes the most positive of attitudes in some departments'. The DoE's orientation was very strongly conditioned by the fact that it oversaw the oldest system of environmental protection in the world; senior officials and ministers perceived that there was little if anything to be learnt from other countries. A 1978 guide to national pollution policy concluded that the UK was 'now at an advanced stage in the development and adoption of environmental protection policies' (DoE 1978, p. 1). Consequently, politicians felt confident enough to agree proposals they did not entirely approve of; Ministers rarely attended CoM meetings in Brussels, preferring instead to concentrate on domestic issues such as the poll tax; the DoE tended to give much higher priority to Parliamentary bills than to European proposals (DoE 1993, p. 15).

The IGC commences

Having being unceremoniously bounced into an IGC that she did not want, Thatcher could conceivably have stood aloof, but her advisers persuaded her to take part. At the time, the core executive clung to the view that any outcomes were unlikely to pose a serious threat to the UK's economic and political interests (George 1994, p. 183). Her own Foreign Secretary at the time, Geoffrey Howe (1994, pp. 408–9), remembers that 'soon the irritations of Milan faded into history... we were in truth eager to hammer into place the ... single market program'. However in the IGC itself, Foreign Office officials maintained a studied detachment, willingly debating other state's proposals but withholding any positive suggestions of their own (Corbett 1987, p. 244).

The environment was not, however, quietly 'slipped in' to the space ther-

ebly created. To the contrary, the Commission identified it as an uncontroversial issue which could be used to drive the IGC forwards when many states were still unsure whether anything of substance would emerge (Dinan 1998, 29). Its early interventions 'radically transformed the atmosphere' of the IGC from one of open confrontation to constructive engagement (Dehousse and Majone 1989, 102). According to the then Director-General of DG XI, Tony Fairclough (1999):

our [DG XI's] goals were quite clear: to get something much stronger into the Act ... and part of the legal constitution of Europe. ... [W]e, of course, would have liked even stronger requirements... but it wasn't bad.

By securing early agreement on 'low political' issues such as environment and technology, the Commission and the Luxembourg Presidency laid the foundations for a successful outcome (Colchester and Buchan 1990, pp. 21–2; *Agence Europe* 19–9–85, p. 3; 20–9–85, p. 4). However, the Commission's master-stroke was to secure a foothold for environmental policy in the internal market section of the Treaty (i.e. Article 100a) (*Agence Europe* 30–7–85, Europe docs. 1366) where QMV applied. Thatcher balked at this but considered it a price worth paying to achieve the internal market she so desired, dismissing the connections with so-called 'flanking' areas such as the environment as 'simply rhetorical' (Moravcsik 1991, p. 41). Moravcsik was not, however, the only well-informed commentator to have fundamentally underestimated the long-term significance of opening the door to QMV and greater oversight by the European Parliament (ENDS 1985).

The available documentary evidence, confirmed in interviews with senior civil servants, confirms that the DoE was forced to observe these unfolding events from the sidelines in London. MINIS (Management Information System for Ministers – an annual process of target setting and reporting introduced in 1979) 7 (July 1986) later reported that '[h]eavy (and *unforeseeable*) demands' on the department had arisen during the IGC, underlining the reactive nature of its input (DoE 1986; CDEP, 2.03, p. 9). Crucially, according to the head of its international division:

We did think a new treaty was important ... [which was also supported] ... at a high political inter-departmental level, but only so long as it didn't affect the veto. Everything was done to make sure that majority voting didn't come into the environment [part of the Treaty].

The DoE's Central Directorate of Environmental Policy (CDEP) therefore concentrated on working up a list of rules to limit the scope of Article 130 to 'safe' environmental issues. However, the UK's efforts to delineate the precise limits of EU competence failed because other Member States were reluctant to deny themselves the means to tackle new issues as and when they arose. Consequently, states adopted a very broad and inclusionary definition of the aims of EU environmental policy which seemed to suit

everyone's immediate purpose (Vandermeersch 1987, p. 413; de Ruyt 1987, p. 214).

At first blush, the environmental amendments presented little threat to the goals of the UK core executive (i.e. delivering the single market). Far from it, they succeeded in solving a number of domestic difficulties. First, they promised to place a stronger legal straitjacket on the future development of the environmental *acquis*. The House of Lords (HOLSCEC 1978, 1979) had already drawn attention to the 'irreversible removal of legislative power' from the UK brought about by nearly a decade of informal integration, and implored the DoE to delineate the scope of future EU activity. Second, there was gentle external pressure for codification from the European Environmental Bureau and the Institute for European Environmental Policy (IEEP), but most mainstream environmental groups in Britain were simply not attuned to developments at the European level and the IGC passed them by. Third, Britain had undoubtedly become much greener in the period since 1973 and more receptive to demands for tougher environmental standards. Finally, during the mid 1980s the *acquis* began to develop its own internal dynamism. For instance, during the preparatory phase of the IGC, the ECJ issued a landmark ruling on waste oils (Case 240/83, ECR 531) which described environmental protection as one of the Community's 'essential objectives' (Köppen 1993, p. 135). In so doing, the Court in effect endorsed the need for formal codification.

The UK's growing willingness to acknowledge and, more importantly, consolidate the informal integration that had occurred in the sector was expressed in a key policy statement entitled 'Europe the Future' (HM Govt. 1984), every single line of which had been personally scrutinized by the Prime Minister (George 1994, p. 176). Published in the summer of 1984 (i.e. a year before the commencement of the IGC) it stated that the EU should 'do more to promote the improvement and protection of the environment'.

Informal integration re-asserts itself

After the signing of the SEA, Thatcher re-assured MPs that the 'amendments on environment and technology show more precisely the activities which were previously taking place' (HC Debs., 88, 5–12–85, col. 436). The Foreign Minister who negotiated much of the text, Linda Chalker, even claimed that the UK would 'be able to ensure that, where we wish, decisions continue to be taken by unanimity' (HC Debs., Vol. 93, 5–3–86, col. 338). The Minister of the Environment, William Waldegrave, said he was 'a little gloomy as to whether in the immediate future the impact of the SEA will actually be beneficial on the environmental side' (HOLSCEC 1987, p. 89). However, his civil servants evidently had a lot less faith in the legal firewall between internal market and environmental issues. In its submission to MINIS 8, the DoE's international division (EPINT) warned that 'a *major imponderable* is the effect on Environment Council business of the [SEA]' (emphasis added) (DoE 1987, CDEP, 2.04, 21). The following

year, EPINT again warned that the '[u]ncertainties over the use of the [SEA]... will continue' (DoE 1988, p. 18). These concerns proved to be well founded. In the Fourth Action Programme, which was published within months of the completion of the IGC, the Commission argued that it had no option but to resort to Article 100a to avoid creating barriers to trade (ENDS 1986). In the five years that followed, more environmental legislation was adopted than in the previous 20 years (Jordan *et al.* 1999). Crucially, only half the new statutes were based partly or solely on Article 130 (Golub 1996, p. 716). Moreover, the broad definition of the environment included in the SEA permitted EU action in areas such as access to environmental information and eco-management systems (EMAS) that would almost certainly not have been permitted under the old Article 235 or have been envisaged by those that drafted 'Europe: the Future'. Geoffrey Howe now admits to having being surprised by these outcomes:

The [SEA] was to achieve most of what we had hoped of it... [but]... we found ourselves facing on some social and environmental matters a more extensive use of Community powers than we had regarded as foreseeable or legitimate. Both these trends can probably be attributed to the impact of the [SEA] upon what might be called the 'culture' of the [EC] and its institutions. The habit of working together... which we had so strongly urged for the Single Market was not something that could be ruthlessly confined. (Howe 1994, pp. 457–8)

Mrs Thatcher (1993, p. 556) also concedes that 'the new powers the Commission received only seemed to whet its appetite'.

The Treaty base of individual proposals, which, significantly, dictated the scope of actor involvement, decision-making rules and, ultimately, the content of the final measures adopted, soon became the subject of a growing number of inter-institutional Court cases (Dehousse 1998, pp. 155–6), as states tried to wrestle back control of the integration process. In a landmark case relating to pollution from the Titanium Dioxide industry, the ECJ sided with the Commission against the CoM, deciding that the Directive in question should have been based on Article 100a rather than 130s (Case C-300/89, ECR 2867 1991). In effect, it supported the trend towards more QMV. According to then Head of EPINT:

Ministers ... were lulled into a false sense of security about 130r. Some of us [in the DoE] saw it coming but were assured diplomatically that 'no, no, no that wouldn't happen'. ... It was quite obvious to most of us – particularly the department's lawyers – that the politicians didn't want to be seen to be obstructing the single market drive. ... [The] trouble [is] when you're at the coalface, miners don't normally get up the mine to see the national head of mineworkers, never mind the minister of mines. I would say it suited the country to find areas where more QMV could be accepted without harming our interests. ... We [the DoE] were quite pleased to have the Treaty... but no not QMV.

The Europeanization of the DoE

In time, the DoE was forced to re-adjust its own *modi operandi* and philosophy in the light of the progressive deepening and widening of EU policy making post-SEA. In 1988 EPINT began to organize bi-annual meetings with the incoming Presidency of the EU (DoE 1989, CDEP, 2.04, 12), and Ministerial attendance at Environment Councils sharply improved (DoE 1990, CDEP, 3.02, 30). However, it took time for the department to publicly acknowledge the extent of Europeanization. In a keynote speech in 1990 Derek Osborn (1992, p. 199) acknowledged that:

[i]n a relatively brief period of time the nature of the [EU] has evolved and expanded, so that its many strands are now woven into most areas of [UK] public policy. This is certainly true of the environmental policy, where in the last 20 years the [EC] has rapidly become a major factor, or even the dominant one.

During the early 1990s the DoE continued to extend and improve its links with Europe, encouraged by a new and Europhilic Secretary of State for the Environment (SoSE), John Gummer. He wanted to engineer a cultural shift in the Department (dubbed European Professionalism) to encourage greater awareness among civil servants and strengthen the DoE's links with other European institutions.

THE DoE: MANAGER OR CIPHER OF INTEGRATION?

What does our case reveal about the ability of different actors to steer the process of integration? In hindsight, politicians do not emerge particularly well from the saga. Mrs Thatcher's preferred plan for an internal market had to be hurriedly re-crafted when she was embarrassingly outvoted at Milan. Having lost the hard fought initiative it had secured with 'Europe the Future', the core executive then found itself reacting to external events that were neither predictable nor of its immediate choosing. Nonetheless, the immediate outcome, which seemed to satisfy the core executive's minimalist agenda (though, crucially, not the DoE's), was broadly in line with the predictions of LI. That is by acting as a single integrated unit in Europe, the UK government appeared to achieve a commitment to the internal market with only a number of seemingly minor concessions. In late 1985 the likelihood of what Mrs Thatcher later termed 'uncontrollable institutional ventures' seemed very low.

Throughout the IGC the 'state' appeared to function as a single, rational agent, with little evidence of the DoE 'cutting slack' at the expense of other departments or the core executive. To the contrary, the DoE was actively excluded from the 'statecraft' decisions taken by Thatcher and her inner cabinet. Throughout and immediately after the IGC, the continuing absence of focused societal pressure in Britain allowed the core executive to play 'two level games' to its immediate advantage. For example, having signed the SEA the core executive deliberately understated its consequences, push-

ing it through Parliament under a guillotine procedure in a few hours as a technical amendment to the Treaty of Rome. As of early 1986, the UK core executive appeared capable of managing fully the process of European integration sanctioned by the SEA, whereas the DoE was very much the cipher. Crucially, the DoE opposed steps to further Europeanize national environmental policy-making but was overruled.

Game, set and match to LI? If we fast-forward a decade to the mid-1990s, we can see that it was only when the SEA was implemented and the locus of policy development returned to the functional level of the Environment Council, that unforeseen consequences began to manifest themselves. The speed with which Eurosceptics in the UK Parliament and (even) the core executive moved to condemn the SEA is testimony to this (see, for example, her famous Bruges speech in September 1988 (Thatcher 1993, pp. 744–5)). A process-based account correctly identifies the critical importance of the core executive's short time horizon, typified by Mrs Thatcher's unwitting commitment to just the sort of 'unstoppable institutional venture' which she herself feared. The paradox is that none of this was specifically sought or facilitated by the DoE. In fact the prime mover was the Commission, which could afford to take a more strategic view of events. Aided and abetted by the Court, it learnt how to bypass the Article 130 *cul-de-sac* by subtly re-defining its proposals as internal market measures. The SEA was, of course, vitally important in this respect (it made the decision rules more *communautaire*), but so too was the wider political context of the late-1980s which was considerably more supportive of higher environmental standards.

The political demand for higher standards fed through into the Environment Council which began to produce environmental rules at a faster rate. Crucially, a process-based approach argues that the greening of British politics was itself the unintended by-product of European economic integration. In the late 1980s, European Directives began to create new national political opportunity structures. These were exploited by domestic pressure groups to achieve still higher domestic standards, thereby emphasizing the subtle and self-reinforcing nature of integration. In time, even the DoE began to appreciate that political capital could be made from the unintended consequences. For example, John Gummer quickly claimed political credit for the strong European environmental standards unwittingly introduced by his predecessors (Gummer 1994). Thus it was the momentum generated by the greater use of QMV *coupled to* Member States' increasing appetite for environmental measures that helped to generate a strongly pro-environment dynamic in the Environment Council. All these aspects of the case study are consistent with the predictions made by HI.

Moravcsik (1998, p. 347) now accepts that supranational actors did have a significant but contingent influence in shaping the SEA relative to the other IGCs. But although they increased the speed and efficiency of the negotiations he steadfastly maintains that the 'main outlines were firmly

set by enduring national interests'. Our case challenges that interpretation. Indeed, a process-based approach denies that there is even such a thing as a 'national interest'. What our study identifies is a much more paradoxical outcome. Weak domestic pressure allowed the core executive to 'cut' slack, but this had consequences that contradicted its initial purpose, namely achieving internal market reform *without* institutional change. Importantly, Moravcsik (1998, p. 365) overlooks the events that occurred between the 'big bangs'. In his chapter on the SEA IGC, he argues that environmental policy 'remained under unanimity'. But 90 pages later (*ibid.*, p. 455) he writes that the Maastricht IGCs achieved little more than a 'reclassification of activities already conducted by QMV under Article 100'. In other words, by looking only at the 'big bangs' he overlooks the intervening process through which environmental policy gradually and subtly became more communitized. In contrast, a process-centred approach argues that the environmental *acquis* had begun to develop a life of its own by the late 1980s. The preferences of the core executive and the DoE eventually adjusted to take account of this.

Our study powerfully reveals that in taking a brief and unrepresentative 'snapshot' of an gradually unfolding process, LI seriously underestimates the potential for integration to move *beyond* the original (in our case c. 1984) preferences of states and impose limits on their ability to fight back (for example, the Environment Council mounted legal challenges and the ECJ resisted them). In the lexicon of HI, the UK gradually found itself locked into a dynamic and expansive process not of its immediate choosing. A process-based perspective also reveals other ways in which European institutions perpetuated themselves. The gradual Europeanization of the DoE post 1987 stands out in this regard. For example, in 1990, some 17 years after the UK joined the EU, the DoE finally established a European co-ordination point, EPEUR, with the task of 'improvin[g] the UK's EC performance on environmental issues' (DoE 1991, CDEP, 2.04, 7). State-based theories argue that member states are separate from and in control of the process of integration. And yet here we have a constituent part of the state being subtly changed by the very process it is meant to be in control of.

To summarize, our study raises a number of fundamental questions regarding the applicability of LI. It confirms LI's reputation as a sophisticated and parsimonious theory of intergovernmental bargaining during the set-piece political events, but it raises further doubts about its suitability as a theory of integration. Moravcsik assumes that the 'big bargains' are all important – they *determine* outcomes. Only more recently has he conceded (in a footnote) that it 'remains an open question to what extent the pattern of national preferences... remains a, perhaps *the*, decisive factor in daily decision-making or judicial interpretation' (Moravcsik 1999, p. 179) (emphasis in original). The key problem is that integration in our case occurred before, during and after the IGC, with no clear 'history' making events. Significantly, informal integration prior to the IGC subtly re-defined

the context of intergovernmental negotiations. Far from operating on a *tabula rasa*, negotiators faced an institutionally constrained choice between doing nothing and blessing the integration which had already taken place. This, *contra* LI, lulled the core executive into a false sense of security. In other words, the integration that had accumulated since 1973 had subtly re-defined its preferences.

Second, the dividing line between day-to-day decision-making and the SEA IGC was far from clear-cut. Studying IGCs reveals the bargaining between core executives but it does not fully explore the origins of state preferences or the subsequent process of interpreting and applying new mandates in particular policy sectors. IGCs are where we would *expect* the state to behave as a single, rational actor. Future analysis must focus on the institutional venues in which daily policy making occurs (e.g. the technocratic committees and working groups of the CoM). These domains provide much more fertile ground for transgovernmental coalition building than IGCs. Only by cutting into the web and weave of daily policy making can analysts appreciate whether and to what extent Europeanization has gradually undermined the principles of collective responsibility and ministerial responsibility.

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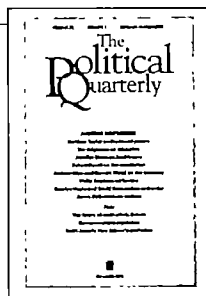
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W W W . B L A C K W E L L P U B . C O M

ADMINISTRATION AND SOCIETY: BEYOND PUBLIC CHOICE?

MILAN ZAFIROVSKI

This paper involves an attempt at reconsidering public choice theory, with reference to its pertinence for public administration. The impetus for such reconsideration has been supplied by the claims of public choice theorists that their theory, as the economics of politics, is superior to its alternatives in political science and sociology. The Weberian theory of bureaucratic administration or bureaucracy has been a special target of public choice theorists on the grounds that it misconstrues bureaucrats as idealists in economic terms. The public choice solution is treating bureaucrats and other political subjects as rational utility optimizers, including profit-maximizers and rent-seekers. Public choice theorists claim that such a treatment has revolutionized the theory of bureaucratic administration. The reconsideration does not provide *prima facie* support for these claims of public choice theorists.

INTRODUCTION

Contemporary economists and other social scientists argue that the analysis of politics, including public administration, should be founded on rational choice as a unifying paradigm. The paradigm of rational choice is expected to bring theoretical unity in social science by being the basis of neoclassical economics as well as of social exchange theory in sociology and public choice in political science. Presumably, explanations of social processes and structures, including their political and organizational forms, are reached only when these are accounted for in terms of the rational actions of individuals. Though political phenomena are not mere extensions of economic ones, the conception of rational action is seen as a basis for analysis of both (Alt and Shepsle 1990).

Rational choice models are, on the basis of their scope, divided into narrow, hard or first-order and broader, soft or second-order. Another division includes thick and thin rational choice models based on teleological agnosticism, that is, on whether they specify action purposes or not. Using this criterion, thick models *ex ante* specify purposes and thus are non-agnostic, while thin models avoid such specification thus being agnostic in teleological terms. Some rational choice theorists prefer the first models on account of their thick descriptions of action purposes, and others the second for their teleological agnosticism.

In their specification of actor goals or preferences, non-agnostic rational choice models often focus on interest and the pursuit of personal gain

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(Bates, De Figueiredo and Weingast 1998). Such a focus on materialistic ends is justified by the argument that the narrower the assumed preferences are, the more substantive the explanations and predictions (Stollner 1998). Alternatively, such models tend to regard non-instrumental variables, including values and ideas, as irrational, irrelevant or as disguises for seeking instrumental goals. Admittedly, many rational choice theorists argue that some of the ideas and ideologies are agents', especially politicians', means for attaining instrumentalist goals, albeit some object that such a view is inadequate (see Weingast 1995). Much of rational choice theory denies that ideas, ideologies, values and other non-instrumental factors significantly or autonomously influence political behaviour, by treating them as reflections (epiphenomena) of self-interest as the assumed explanatory factor. Admittedly, rational choice theorists 'typically eschew the notion that ideas affect political choice [for] many instrumentalists believe that a simpler focus on interests alone is often adequate to explain the political event in question, relegating the "idea" to an epiphenomenon' (Bates *et al.* 1998). Even when the role of ideas and ideologies is recognized, arguably their influence on political (and social) behaviour depends not only on their comparative plausibility but also on the balance between plausibility and stakes, that is, probabilities and payoffs. The argument is that ideas and ideologies must obtain external validity in a process of verification and updating that proceeds in accordance with the rationality inhering to Bayes' rule (Bates *et al.* 1998).

Unlike their non-agnostic instrumentalist counterparts, an implicit premise of agnostic models is that actors are guided by a wide variety of ends, namely, extrinsic economic incentives and intrinsic non-instrumental motivations. Since in these models either actor ends or utility functions can be associated with other people's well being or utilities, both complete egoists or hedonists and altruists or Kantians are subject to rational choice analysis. Thus, many social scientists who embrace the rational choice approach from economics also adopt a broader definition of ends, namely of what is incorporated in utility functions. Although such models tend to be agnostic about what particular goals individual agents pursue, they implicitly incorporate both instrumental and non-instrumental, self-interested and disinterested preferences in an overriding utility function. In this connection, utility is treated as a general category that resembles the notion of fitness in biology as well as of happiness, pleasure or inner satisfaction in psychology.

By contrast, thick rational choice models avoid teleological agnosticism because of the perceived pitfalls of there being a tautology in the concept of an all-inclusive utility function to be 'optimized'. Insofar as utility optimization is a tautology, rational choice theory can gain explanatory and predictive value solely if thick rather than thin assumptions, descriptions and explanations are advanced concerning the character of the preferences, motives or ends included in the utility function (Sollner 1998). Such

assumptions and descriptions typically specify these preferences as largely instrumental, materialistic or extrinsic; often qualifications and mitigations are made. Some rational choice theorists (Bates *et al.* 1998) suggest that constructing sound rational choice explanations presupposes 'soaking and poking' to reach the depth of understanding attained by thick descriptions and accounts in (political) anthropology, namely the cultural-interpretative approach to society, including the polity. In this regard, rational choice would be an interpretive theory that interprets social – including political, actors and their actions – as rational via *ex post* rationalist reconstructions of their patterns of preferences, meanings, beliefs and understandings.

Against this background, the following section of this paper contains the essentials of the economic model of politics or public choice theory as its advocates present them. The next section deals with the treatment of bureaucratic administration by public choice theory. This is followed by a section that compares and contrasts public choice and sociological conceptions of bureaucratic administration and a section that discusses further implications and complications of the public choice theory of bureaucratic administration. The final section offers concluding remarks.

THE ECONOMIC MODEL OF POLITICS: PUBLIC CHOICE THEORY

The specialty of the rational choice model or the economic approach to human behaviour in reference to the political realm is usually termed public or/and social choice theory. Public choice theory in the strict sense should be distinguished from social choice theory. Social choice theory is a relatively distinct specialty premised on formal axioms, including consistency/transitivity in preference ordering and making choices within the polity in analogy to the market. French philosophers such as Condorcet adumbrated social choice theory, elaborated by some economists, that centres on the problems of aggregating individual preferences and choices into social choice or collective decisions (for example, voting outcomes). In this article, focus is on public choice theory, though some make no distinctions between the two, and many public choice theorists engage in some type of social-choice theorizing (or critique), thus making the boundaries between the two fluid.

Public choice theory thus represents what its adherents term an economic theory of politics, economics of politics, an economic approach to political behaviour, an application of economic methodology to the polity, the conception of *homo economicus* in the political marketplace, and the like. For example, some public choice theorists (Stollner 1998) propose that *homo economicus*, as an extremely flexible and general model of human behaviour, should not be abandoned but rather extended to the polity and society as well. The proposal builds on the picture of the members of the polity and society as *homines oeconomici*. *Homo economicus*, defined as a rational agent, for example, a utility maximizer, has only one condition to meet, such as

consistency, that is, transitive, complete and reflexive preference ordering, so no limitations are placed on preferences. In this view, by virtue of imposing the fewest *a priori* restrictions on political and other human behaviour, the model of *homo oeconomicus* is well suited (Sollner 1998). Alternatively, this involves rejecting the notion of *homo politicus* based on public interest and non-economic concerns (e.g. justice), as an alternative explanation of political behaviour, in favour of *homo economicus* (Bernholz 1998). Presumably no use or no need to appeal to *homo politicus* exists within a 'society of homines oeconomici' (Sollner 1998). However, critiques object that the 'thick-rational picture of human beings as members of the species *Homo economicus*, while supposedly hypothetical even in economics textbooks, is, in the practice of [public choice theory] taken for granted as an obvious truth' (Friedman 1996, p. 3).

The characteristic of public choice theory, as an economic model of political phenomena, including public administration, is not surprising given that most of its adherents are economists. Notably, 'given the prominence of methodological individualism, and the attraction of the invisible hand theorem, it was natural that when economists turned their attention to the examination of the consequences of political institutions they would adopt the same methodological building block and try to establish a similar aggregate result' (Mueller 1997, p. 4). The same can be said of the political applications of other basic economic principles, such as maximization of utility, profit and wealth, cost-benefit calculus, rent-seeking, etc. Thus understood, public choice is differentiated from its softer and motivationally thicker counterparts such as rational action theory for sociology. Still, a *caveat* is in order – public (and rational) choice theory is not homogenous but has internal variations; in particular, not all of its proponents share the economic assumptions about political (and other human) behaviour. Further, some of its contemporary adherents (Bates *et al.* 1998) reject the view that public choice theory supplants sociological or cultural approaches in favour of a two-way street between them.

Now, the question arises as to what is the justification public choice theorists offer for their approach to politics. The justification is that the economic approach to politics can remedy the lack of well-structured theory, vagueness and ambiguity of discourse in political science and sociology. The missing theory is supplied by the rational choice paradigm that social actors are rational optimizers of utility in all of their behavioural capacities (Buchanan 1991a). Presumably, rational choice is a universal approach applicable to all human behaviour.

The universal character of rational choice is the main reason why many economists and non-economists find the theory attractive as a powerful idea, a fruitful basis for social science (Coleman 1986, p. 4). In particular, public choice theorists argue that political analysis 'is simply an application of the postulate of maximization of utility' (Coleman 1986, pp. 19–21). In general, arguably 'there is one paradigm in social science that offers the

promise of bringing a greater theoretical unity. This is the paradigm of rational action. It is the paradigm on which economic theory rests. It is the basis for the expanding domain of public choice within political science' (Coleman 1989, p. 5).

At this juncture, public choice theorists' maxim seems to be that 'you can't beat a theory with nothing', that is, a theory 'is only rejected if a better theory is available' (Opp 1989, p. 254). They argue that theirs generates more parsimonious, logically consistent, methodologically advanced, explanatory-predictive theory than alternative approaches to the study of politics. Further, they claim the empirical success of their paradigm by pointing to phenomena such as pseudo-market transactions in government (political exchanges), rent-seeking by public officials, political business cycles, the processes of privatization and deregulation, and so on.

In turn, some public choice theorists (Bates *et al.* 1998) acknowledge that recent political tendencies indicate serious limitations in public choice theory as a vigorous and contentious voice in political science as well as the usefulness of alternative (cultural or interpretive) approaches to politics. Reportedly, such political trends include revolutions, democratization, riots, ethnic-religious conflicts and other examples of cultural politics, coups d'état, political transition, and other forms of unstable politics and political transformation. For example, recent events in the Balkans (the former Yugoslavia) as well as in Eastern Europe and elsewhere have reaffirmed the power of ethnic factors in political behaviour, that is, the redefinition of politics as a matter of ethnicity rather than economics. Admittedly, many scholars recommend replacing public choice or political economy by alternative approaches attentive to the non-instrumental factors and forms of political behaviour (Bates *et al.* 1998).

Various qualifications and mitigations notwithstanding, critiques object that the economic approach to political and other human behaviour often reflects explicit or implicit economic imperialism. As leading neoclassical economists caution, the economic theory of democracy and politics 'is a very good example of economic imperialism, which is an attempt on the part of economics to take over all the other social sciences' (Boulding 1969, p. 8). Especially in the USA, much of public choice theory boils down to the economics of politics conceived in pseudo-market terms (especially in its early versions) as discussed below.

Politics as the market and beyond

In applying the economic approach to politics, public choice theory describes political subjects as maximizing entrepreneurs and political systems as particular forms of market (Tullock 1998), which like economic markets operate to produce wealth-maximizing outcomes (Wittman 1995). Hence, wealth maximization becomes the standard assumption of public choice theory, including the analysis of constitutional choice for which this assumption is deemed quite appropriate.

In particular, early public choice theorists conceive the polity (including the legal system) as a market guided by an invisible hand. However, others (Sugden 1999) voice misgivings about the market metaphor of politics, as do social analysts outside the public choice circle. (For example, as to the economic treatment of the legal system as part of a universal market-economic order, even some laissez-faire economists admonish that their colleagues 'pronounce on legal matters at their peril: law is a discipline all its own' [Krugman 1997, p. 120]. The same could be said of economists' pronouncements on other political and generally non-economic phenomena, including public administration and its relation to society, and so on.)

In this regard, insofar as most of the recent public choice work centres on the constitution and operation of political institutions, especially on different institutional arrangements of democratic government, the market metaphor or invisible-hand notion of politics should not be over-emphasized. Nevertheless, some founding public choice theorists persist in treating politics as a special case of market. In retrospect, this has been the core argument of classical public choice works: for example, the 'central insight of *The Calculus of Consent* [is] that politics is a market' (Sugden 1999, p. 1716). For much of public choice theory political life 'is a market' acted upon by officials and citizens who, like firms and consumers, are assumed to behave as if they were rational optimizing agents pursuing their own self-interest. Assumedly, there is a market for collective social action, which like economic markets is vulnerable to market failure, due particularly to seeking private gain, and public choice theorists propose various institutional designs for correcting such failures (Mashaw 1997). For instance, some economists transplant the laissez-faire doctrine of the economic market into 'an invisible-hand theory of efficient democratic markets' (Wittman 1995, p. 6). This theory thus assumes some magical conversion of private vices into public virtues through the hidden hand of the political market.

Insofar as public choice theorists adopt the notion of politics as a free market or perfect competition, this conflicts with the 'end of laissez-faire' (Keynes 1972) as a policy in the modern economy and as a theory in economics (since the 1929 Depression). As to the root and merit of the laissez-faire and invisible hand doctrine, the 'beauty and the simplicity of such a theory are so great that it is easy to forget that it follows not from actual facts but from an incomplete hypothesis' (Keynes 1972, p. 284). As regards its practical consequences, admittedly 'it is not true that individuals possess a prescriptive natural liberty in their economic activities [and] it is not a correct deduction from the principles of economics that enlightened self-interest always operates in the public interest' (Keynes 1972, pp. 287–8). Specifically, lack of natural liberty would deny the validity of the laissez-faire doctrine, and the divergences between self-interest and the public interest of the invisible-hand notion. This Keynesian deconstruction of the doctrine of laissez-faire and invisible hand is not just of historical interest but can help highlight contemporary public choice theory.

Thus, some early public choice theorists maintain that the principal challenge to both theory and policy is 'constructing a political order that will channel the self-serving behaviour of participants towards the common goal in a manner close to that described by Adam Smith with respect to the economic order' (Buchanan 1991a, p. 40). Apparently, this suggests using the market and its assumedly invisible hand to construct an efficient political system. At the same time, it is warned that social-political order 'would collapse overnight if all persons, or even a large share of persons, should suddenly commence to behave strictly in accordance with the utility maximizing models of orthodox choice theory and within the constraints only of formal legal enforcement structures' (Buchanan 1991b, p. 211). Yet, this would suggest that the invisible hand may be inoperative or insufficient. Presumably, in one case the invisible hand operating as self-seeking with (or without) guile leads to the common goal, and in the other, it does not, that is, the same behaviour frustrates attaining this goal. Critiques may here detect some inconsistencies in a putatively consistent approach to politics, a comprehensive framework for analysing all human behaviour, or a unified model of man.

In turn, much of contemporary public choice theory, by relaxing and partly abandoning the market or invisible hand notion of politics, entails that political markets fail to fully meet the democratic wish, namely, to supply the government that people want or deserve (Rossi 1998). In particular, what is striking about public choice theory is the extent and gravity of government failure the theory assumes or detects. Hence public choice in terms of message and remedy is the following: radically limit the administrative state, namely, dismantling bureaucratic governance mechanisms, and shift trust in the economic market, families, voluntary associations, and community based governments (Mashaw 1997). Since public choice theory harbours a pessimistic vision about government generally and bureaucracy particularly, the future prospects for public administration are often seen as dismal (Rossi 1998). Public choice theory's treatment of bureaucratic administration is discussed in more detail in the rest of this paper.

PUBLIC CHOICE AND BUREAUCRATIC ADMINISTRATION

In retrospect, the standard argument of early public choice theory, applying the optimizing principle to public administration, is that bureaucrats and political officials tend to engage in budget maximization and thus inefficient spending within a non-market setting of government. To redress this situation, public choice theories of public administration propose competition, deregulation and privatization as solutions. Alternatively, they reject most government regulation and redistribution as strongly inconsistent with democratic responsiveness (Noll 1996) and the public interest. Some public choice theorists (Shepsle 1980) argue that rather than the general public, the chief beneficiaries of government's tendencies to distribution and regu-

lation are political officials, government bureaucrats, and the owners and workers in favoured sectors.

In making such arguments, public choice theorists apply what is termed a neoclassical approach to distributive politics (Weingast, Shepsle and Johnsen 1994), that is, to government redistribution and regulation. Much, albeit not all (Sugden 1999), of public choice theory conceives the state or polity as a network of exchange transactions, that is, as a political market, permeated by market-style advertising (Noll 1993). It can be assumed that political behaviours, especially the relations between public officials or bureaucrats and citizens or tax payers, can be, like economic activities, explicated within the framework of market exchange (Wagner 1997, p. 162). However, if the polity is a distinctive system of society in relation to the market, such analytical and policy solutions to the problem of government or public administration may become the 'species of remedy which cures the disease by killing the patient' (Keynes 1960, p. 324). For instance, the mediation of social groups tends to produce differences in the way that individuals participate in political settings from their participation in markets (Ostrom 1989).

Good intentions, bad outcomes

Some soft versions of public choice allow that political actors can also seek non-pecuniary values, such as power and social prestige rather than only rent and wealth. Moreover, these versions would not rule out that political actors might be induced by altruistic social motives to serve the public interest, as they interpret it. Ironically, this implies partial admission of a key assumption of socio-cultural, including interpretive conceptions of politics. (For attempts to incorporate these into a public choice framework, see Bates *et al.* 1998; Weingast 1995.) This is the assumption that political actors, including bureaucrats, officials and citizens, are often driven by perceptions or misperceptions of the public interest rather than by accurate calculations of private interests, albeit this may involve merely exchanging one assumption for another. Yet this exchange or substitution may be worthwhile insofar as the second assumption is more plausible than the first. If so, then in public administration and politics generally the 'road to hell' is frequently paved by good intentions, that is, the self-delusion of promoting the common good rather than individual interests.

Admittedly, bureaucrats and political officials are not necessarily mal-evolent rent-seekers, as portrayed in much of public choice theory, but can be sufficiently honest and possess good intentions (Qian and Weingast 1997), as well as higher purposes, values and principles. Consequently, they could – and even should, as some leading public choice theorists (Buchanan and Congleton 1998) suggest – engage in politics by principle and values, rather than interest. Such suggestions imply adoption of politics led by higher, including moral and transcendental, values or public interest, and rejection of that guided by private interests. Yet, other public choice theor-

ists (for example, Sollner 1998) imply the opposite by suggesting that *homo oeconomicus* need not conceal private interests and preferences, but only needs to persuade fellow citizens that these interests will also be advantageous to all [sic!]. Thus, what is called 'politics among homines oeconomici' is not seen as reflecting distrust and pessimism, but rather as honest and realistic.

Nevertheless, public officials and other political subjects often generate bad economic and social policies and outcomes in the name of good intentions as well as higher values and principles. Such tendencies thus reflect the crucial role of self-delusions of public interest in the behaviour of political actors, including public officials. On the other hand, public choice theorists complain that traditional economic theory treats organizations, including governments (and firms), as black boxes run by benevolent agents acting on their good intentions (Qian and Weingast 1997). Such complaints are especially voiced in regard with traditional, including Keynesian, macroeconomics on the account of its underlying picture of policy makers and bureaucrats as public spirited. (On some tensions between traditional macroeconomics and public choice theory, see Muller 1978.) Moreover, some lament that even the new classical macroeconomics premised on rational expectations involves an oversight and serious defect by neglecting the non-idealistic view of governments in public policy modelling (Meiselman 1992).

Instead, public choice theorists assert that just as there is no natural reason that prompts managers to protect shareholders' interests, so no natural incentive exists for political officials and bureaucrats to promote citizens' welfare (Qian and Weingast 1997). In a similar vein, some of its advocates complain that public choice theory has hardly been applied to economic development, a field still dominated by social engineers imbued with a public interest notion of government (Rowley 1992). In this connection, public choice theory (Shepsle 1980) seeks to turn around the argument that private ends can be harnessed to public goals by arguing the opposite, namely, that the latter are the means to attain the former.

Overall, it seems that the recent public choice literature places less emphasis on intentions or motivational concerns than does the older more behaviourist work. Nevertheless, it is often argued that making some assumptions about intentions or motivations is the first step in rational choice theory (Niskanen 1992), including its public choice versions. However, it is admittedly 'most incorrect to conclude that empirical confirmation of the hypotheses generated by this theory can be regarded as proof of the assumed intentions' (Niskanen 1992, p. 561). As hinted before, this admonition would apply to non-agnostic (thick) rather than agnostic (thin) public choice models. This holds insofar as non-agnostic models make specific *ex ante* assumptions about as well as *ex post* reconstructions of political actors' intentions and reasons, preferences, meanings, beliefs and values as well as motivations and ends.

PUBLIC CHOICE VERSUS SOCIOLOGICAL THEORIES OF BUREAUCRATIC ADMINISTRATION

Towards a new economic theory of public administration

In retrospect, issues of public administration, particularly bureaucracy, have traditionally been within the province of sociologists such as Max Weber (Caldwell 1997, p. 1879n.). However, public choice theorists have especially assailed sociological and related theories of what Weber (1968, p. 992) called bureaucratic administration or simply bureaucracy. Thus, some public choice theorists charge that 'two barriers to [bureaucratic administration] theory stand out. The first is that bureaucracy is a complex subject with no natural focus for analysis. The second is organizational theories from sociology and social psychology, which have not pointed a way out of the thicket. The turning point came during the early 1980s with the rise of the 'new economics of organization' (Moe 1997, p. 455). The economics of organization is thus seen as a more adequate basis for a theory of bureaucratic administration than the sociology of organization.

Moreover, public choice theorists (Moe 1984) argue that the new economics of organization or the new theory of the firm, namely, transaction cost economics and principal-agency theory, is the single most important development in the analysis of public administration and political institutions. Arguably, the new economics of organization lives up to its promise and is far more powerful than any sociological alternative (Moe 1994). The new economics directed attention on such properties of the organization of public bureaucracy as rules, procedures and staffing systems seen as strategic means by which political agents further their interests and as crucial mechanisms of political control. Some public choice theorists reject virtually all non-economic or sociological approaches on the grounds that their explanations are not individualistic, that is, not referring to the interests or strategies of individuals to explicate public administration and politics. In their views, while the sociological perspective on public administration is not built or able to do this, the economic approach is (Moe 1994). Hence, due to its great analytic power and to its being perfectly suited to produce the explanations political scientists want, rational choice theory is attributed a much stronger theoretical force in political science, including public administration, than sociology.

Applying the economic theory of organization to non-economic organizational forms such as governments and bureaucracies leads to the rational choice model of public administration. The underlying argument is that the natural basis for analysing and understanding public administration and government represents the new firm theory from economics (Qian and Weingast 1997). Further, some public choice theorists call theirs the 'only game in town' for those seeking a coherent theory of public administration, and claim that alternative, especially sociological, theories 'can't hold a candle to it' (Moe 1994).

In particular, its advocates claim that public choice theory 'challenged the dominant orthodoxy of modern political [sociology], exemplified in the works of Weber, by asking the question: what are the rewards and penalties facing a bureaucrat located in a hierarchy and what sorts of behaviour would describe his efforts to maximize his own utility? Bureaucrats could no longer be conceived as "economic eunuchs"' (Buchanan 1978, p. 11). (Here reference is made to public choice theorists', for example, Niskanen and Tullock's, rejection of the Weberian sociological theory of bureaucracy on the grounds that the theory regards private economic incentives for bureaucrats' behaviour as impertinent or secondary in relation to extra-economic and group concerns, such as social prestige and organizational efficiency. At this juncture, Niskanen's work on public bureaucracy is usually quoted as the first, systematic effort to study the phenomenon within a public choice framework, see Mueller 1978.)

Within the public choice framework, much of bureaucratic administration analysis resorts to the constrained utility maximization approach, in the same fashion as does conventional micro-economics in analysing the behaviour of individual market agents. This resort and the resurgence of the economics of bureaucracy have been largely propelled by what most economists saw as the excessive growth of bureaucratic administrations, especially governments. The logic of the economic theory of bureaucracy is simple, at least for economists using what they deem self-evident axioms or universal laws of utility maximization, supply and demand, free competition, full information, and so on. In consequence, many economists would argue that no need exists for testing the fundamental postulates of economics, namely, utility and profit maximization.

Public and other rational choice theorists admittedly import these laws of utility maximization from economics into politics (and society), including bureaucratic administration, in the belief that political agents, including bureaucrats, are maximizers. A frequent public choice description of the operation of bureaucratic administration and behaviour of bureaucrats is that bureau heads 'desire as large a budget as possible [which] ensures the survival of the budget-maximizing bureaucrat in the same way that competition produces the survival of the profit-maximizing firm' (Wintrobe 1997, pp. 433-4). Alternatively, most public choice theorists vehemently reject the treatment of bureaucrats and public officials by non-economists and even macroeconomists as Kantian, public-spirited idealists (Meiselman 1992).

Now, it is perhaps all too natural (Mueller 1978, p. 155) for economists to adopt economic or rational choice theories of bureaucracy (Wintrobe 1997, p. 429). Nevertheless, not only economists but many other social scientists also find these theories attractive. Thus even some sociologists and other non-economists dissatisfied with the Weber's sociological conception of bureaucratic administration find solace in economic theories. Moreover, some of them complain that the theory of bureaucratic administration and

generally formal organization has been plagued by a conceptual flaw coming from Weber's conception of bureaucracy (Coleman 1990, p. 94).

The perceived Weberian treatment of bureaucrats as what public choice theory terms economic idealists is considered to be the major conceptual flaw. In this view, Weber's assumption that the functional (or formal) rationality of an administration or organization is realized by a 'structurally rationalized authority system is incorrect. Not only the two conceptions [functional and structural] lack any necessary connection, but also the functional conception cannot be realized by implementing the structural conception. The structural conception does not recognize purposes (i.e. interests) among the occupants of positions in the organizations, but sees these acting only as instruments of the organization's purpose. This leads to errors in the design of organizations' (Coleman 1990, p. 94).

Public choice theorists' solution to the conceptual flaw in the Weberian conception of bureaucracy draws on neoclassical economics, despite some variations in this regard. The solution seeks to analytically transform bureaucrats from non-economic creatures into rational maximizers, including rent-seekers, who tend to achieve bureaucratic capture (Schwartz 1994). Arguably, in light of the experience of some advanced countries during the 1980–90s, state agencies or bureaucracies, due to their agents' opportunistic (maximizing) behaviour, tend toward a self- or bureaucratic capture that leads to non-rational decision making and aggrandizement. Like state agencies' capture by their clients (particular segments of society) induced to request socially irrational levels of spending or employment, bureaucratic capture would be a species of rent-seeking behaviour. In a public choice framework, any form of rent-seeking behaviour causes uncontrollable growth in government expenditure and public employment. In turn, by creating a moral hazard problem – that is, agents (bureaucracies) would not pursue the interests of principals (citizens or elected representatives) unless these interests were congruous with their own – the institutional arrangement for provision of public services would reinforce tendencies toward rent seeking. Simply, 'economists being who they are, the most common answer has been simply "More money!" (a bigger budget)' (Wintrobe 1997, p. 429). In doing so, public choice advocates claim that they have no less than 'genuinely revolutionized the theory of bureaucracy' (Moe 1997, p. 455). Such claims for revolution in the theory of bureaucratic administration are reconsidered below.

Back to Machiavelli and Hobbes: politics as the state of nature

The question arises as to the comparative advantage of economic theories of bureaucratic administration over their earlier sociological and political-science counterparts. Public choice adherents typically claim that their theories' strength lies in their analytic rather than metaphorical power, in their capacity to make transparent the processes underlying politic-bureaucratic relations. Unlike, artistic or literary parables, economic models provide

answers to our fundamental questions. The basic ones are: [1] what do bureaucracies want? [2] How do they try to get it? [3] How do their political masters control them?' (Wintrobe 1997, p. 429).

While such answers are taken for granted by its advocates, a major theoretical-methodological problem with public choice theory is reliance of dubious single-cause explanations of the behaviour of bureaucratic administration. A case in point is the public choice conception of bureaucrats and other political actors as wealth maximizers, rent-seekers and generally 'recklessly selfish monad[s]' (Frank 1996, p. 117) reminiscent of those inhabiting the egotistic world of Machiavelli and the Hobbesian antisocial state of nature. In particular, what its advocates term a non-idealistic view of governments and bureaucratic administrations – that is, that they pursue their own interests – is the essence of the whole field of public choice.

As such, public choice theory represents an attempt at rehabilitation of the political conceptions of Machiavelli and Hobbes versus their idealistic counterparts (Meiselman 1992). Hence, the proclaimed public choice revolution (Moe 1997) in the theory of bureaucratic administration appears as *déjà vu* – that is, a return to the old Machiavellian–Hobbesian world. This particularly applies to American versions of public choice theory. As even some economists who are seen as its precursors complain, the problem seems to be that 'too much of public-choice analysis – especially in the US – has been in the Hobbesian image of Leviathan with an ever-growing and abusive government. Voting outcomes may lead to deficient as well as excessive budgets, bureaucrats may be public-spirited as well as selfish, and political leadership constructive as well as destructive' (Musgrave 1997, p. 156). In this Hobbesian image, Leviathan's representatives (government officials and bureaucrats) are egoistic rent-seekers, as are Machiavellian princes. Assumedly, masters and servants (bureaucrats) engage in maximization and mutual competition, in which the latter may even have an upper hand because of superior expertise and information (Wintrobe 1997, p. 433).

In retrospect, the first proposition is implied in Machiavelli's portrayal of the prince's relations to his administrators or bureaucrats, as all these are assumed to pursue private interests. Also, the second proposition is hardly novel and insightful. For instance, Weber (1968, pp. 990–4) emphasized the potential or actual conflicts between bureaucrats and their political masters, as well as the bearing of bureaucratic administration on democracy and liberty. This is indicated by Weber's (1958, p. 181) metaphor of the iron cage and generally his attempts at reconciling bureaucratic and democratic culture or ethos. In particular, this metaphor implies that despite or because of its superior technical efficiency, bureaucracy may mutate into an iron cage for humans. Alongside all the praise for bureaucracy's productivity and rationality, Weber (1958, p. 155) thought that the 'fate of our times is characterized by rationalization and intellectualization and, above all, by the disenchantment of the world'. The most manifest expression of this

process was the rapid expansion of bureaucracy as a form of legal-rational authority and thus as being conducive to the most efficient form of public administration. In turn, the process of rationalization *cum* bureaucratization thereby tends to create an 'iron cage of a specialized, vocational humanity compelled to renounce the Faustian universality of humankind and to live within a rationalized and disenchanting world' (Weber 1958, p. 181). Weber's iron cage metaphor is thus indicative of his concerns with the far-reaching political, social and psychological repercussions of the growth of bureaucratic administration. Admittedly, Weber 'recognized a long time ago that bureaucratic enterprise gives rise to a profound dilemma for government' (Moe 1996, p. 460) and society generally, including the American one. Particularly, it is observed that the political logic that underscores the creation and design of American bureaucracy inescapably frustrates the prospects for good government, as a grim story of the character and working of the US political system (Moe 1994).

In this connection, public choice theorists' claims for originality and novelty relative to traditional political science and sociology seem dubious. Moreover, much of public choice theory trying to 'explain politics by using the tools of economics [...] simply restates, in more rigorous and pretentious terms, what most people already recognize: that broad public interests are often forgotten or sacrificed as special interests prevail over the unorganized; that the legislative process can produce peculiar results as politicians, bureaucrats, and pressure groups opportunistically strike deals and betray principles' (Nagel and Nagel 1990). Whereas most public choice theorists pour disdain on traditional political science and sociology, they neglect that there have always been many political scientists and political sociologists in the Machiavelli-Hobbes tradition, and to that extent public choice theorists. For example, with its individualist and utilitarian crust, Spencerian political sociology, particularly the conception of the relationship of the individual and the state, can be deemed an archetype of public choice theory. For illustration, Spencer's assertion that society exists for individuals' 'benefits', rather than vice versa, implies the public choice suspicion or rejection of society as some mysterious group mind or a Hegelian collective entity. Relatedly, public choice theory, like modern welfare economics, rejects any notion of absolute common good or objective public interest in favour of an individualistic social welfare function. (For illustration, Sollner [1998] uses the term public interest in quotation marks suggesting that it is a non-entity without reference to private interests or individual preferences – in Mandeville's terms, there are no public virtues without private vices. At this juncture, one can wonder what is *public* about public choice theory premised upon private interests or individual preferences.)

Even Weber's theory of bureaucracy is far from being idealist or anti-economic as the public choice allegations that it conceives bureaucrats as economic virgins imply. This is partly suggested by observations such as

that in a modern economy the 'compensation of officials today takes the form of money salaries [and] the money economy is of very great importance for the whole bearing of bureaucracy [so] without a money economy the bureaucratic structure can hardly avoid undergoing substantial internal changes, or indeed transformation into another structure' (Weber 1968, p. 964).

In turn, it is true that Weber does not depict bureaucrats as optimizing agents, as does public choice theory premised on a 'society of homini oeconomici' (Sollner 1998). Rather, Weber portrayed these and other political subjects as complex multifaceted social actors pursuing material and ideal interests and thus acting, like other political subjects, not just for profit. These actors thus appear more reminiscent of the flesh-and-blood *dramatis personae* acting at a Shakespearean social stage than of anaemic and one-dimensional *homo economicus* (Bowles 1998, p. 78). For instance, instead of engaging in the pursuit of naked economic interests, the 'modern official always strives for and usually attains a distinctively elevated social esteem vis-à-vis the governed' (Weber 1968, p. 959).

Further, Weber's status hypothesis of bureaucracy may be as plausibly applied to the economy as to transplant into the polity the principle of maximization of utility specified *ex ante* in material terms, namely, rent seeking. (This specification is done on the grounds that the most specific or narrow concept of utility pertains to monetary wealth, income or rent, see Sollner 1998.) Reportedly, economic agents engage in the consistent quest for status and are generally motivated by the universal human desire for group approval (Frank 1996, p. 113), which confirms the essentially social character of human behaviour (Winden 1999). The status hypothesis of economic behaviour has been supported by recent studies (Bakshi and Chen 1996) analysing Weber's spirit of capitalism and reporting that contrary to the standard theory, economic agents (including stock investors) seek wealth not just for its economic utility (consumption) but for its non-economic rewards such as social prestige. In addition to social prestige as well as material interests, Weber's (1968, p. 979) bureaucratic administration aims at maintaining and expanding its power for its own sake rather than as an instrument for rent-seeking, contrary to what many public choice theorists assume. (Overall, most economists do not seem to realize that people can seek power, social status and other non-economic rewards as ends *per se*, not as means of money-making.) Moreover, Weber's theory of bureaucratic administration implies that the public choice assumption that political actors, including bureaucrats, 'pursue their own materialistic ends [...] pales in innocence alongside the actions those who seek political power have taken to achieve their ends' (Mueller 1996, p. 346).

Hence, within a Weberian framework, for bureaucrats, material interests can be subordinated to non-material goals in contrast with public choice theory or economic Machiavellism which is premised on rent seeking as the engine for action. In addition, social order in public administration and

complex social organizations generally is reportedly built on such non-rational foundations in economic terms as rituals, non-instrumental (e.g. non-task-oriented) discourses and mediating roles (see Machado and Burns 1998). In conjunction with maintaining social order, these non-rational foundations also provide a stable framework for action, including rational behaviour and decision-making. This implies that administrative or organizational behaviour can often be fully explained only by reference to certain extra-economic variables, including networks of expectations and sanctions within a given social context.

As regards social behaviours (e.g. the use of commons), outside the field of bureaucratic administration in the strict sense, studies find that whereas a central premise of public choice theory is the 'assumption that human behaviour is driven by a particular, narrowly defined conception of self-interest [...] the general pattern emerging is that restraint in the use of the commons is enforced by communities through means ranging from a total reliance on norms to more centralized mechanism. Even in the latter case, social norms have an important influence on behaviour' (Sethi and Somanathan 1996, p. 766). In this latter case local self-government or local administration gets involved in its capacity of a specific political institution by enforcing obligatory rules and regulations of behaviour. However, these rules, just as any legal norms, are far more effective in combination with those diffuse social norms such as customs, traditions, morals and others, than in isolation from them, as shown by the demonstrated futility of enforcing morality by laws in the USA. Homologous patterns of public spirit and social cooperation also emerge in NIMBY (not-in-my-backyard) situations pertaining to the building and locating of publicly desirable but locally unwanted facilities (e.g. power plants). As reported, in many such situations, 'civic-minded individuals do not only further their own goals, but are prepared to bear some cost for the benefit of the larger group [which shows] a particular limit of monetary compensation to rally support for a socially desired enterprise' (Frey and Oberholzer-Gee 1997, pp. 752–4). One can comment that *homo economicus* 'may not behave this way [yet] responsible people [...] do' (Blinder 1997, p. 14).

The role of social networks, and thus network analysis, suggests that those working in as well as studying public administration 'will have to learn to think of organization as an external, not internal activity' (Bogason and Toonen 1998, p. 205). More generally, political and other human actions can be best comprehended in the context of social interactions and networks of ties among interdependent actors, and not as ends in themselves (Bates *et al.* 1998). Admittedly, since many facets of meanings and thus utilities are derived from the context of society rather than arising in an independent or automatic manner among individuals, this implies that individual preferences and value are socially constructed (Weingast 1995).

Public choice theory and the conservative spectre of Big Government

The public perception and even paranoia – as recurring especially in the USA – that government and any public administration is a tax-and-spend exemplar of inefficiency is not fully supported by the evidence, at least within Western democracy. And yet this (mis)perception has often been fostered, reinforced and perpetuated to the point of becoming a dogma by public choice theory as well as by conservative politicians in the USA and elsewhere. For example, government spending in the strict sense, that is, expenditures on goods and services purchased by government, has increased only by 14.9 per cent in OECD countries during the 1960–90 period (Alesina and Perotti 1997). However, this pales in comparison with an 85 per cent increase in social expenditure. The latter is spending that in some ways goes back, through Wicksell-type free-exchange transactions, to society, including tax-payers, that public choice theory (and conservative politicians) ritually portray as losers and victims of bureaucracy and government. As a result, strict government consumption as a share of GNP has stayed relatively stable (from 15.1 per cent to 17.3 per cent) during that period, while social expenditure/welfare has almost doubled: from 8.3 per cent to 15.3 per cent of GNP.

The first tendency thus hardly corroborates public choice theory's proto-conservative invocation, above all in the US, of the spectre of Big Government. Not surprisingly, public choice ideas have strong attraction for American (and other) conservative ideologues and politicians and who regard government as no more than the source of dirty little subsidies and artificial monopolies. Thus for the political-ideological right, 'in the rough, greedy world of legislative politics, the winners help themselves to everyone else's property, penalizing work and risk-taking and bringing about inefficient allocation of resources' (Nagel and Nagel 1990).

The second tendency indicates consolidation of the welfare state, especially outside the USA, and thus of the presumed link between taxes and public expenditure choices, that is, the voluntary exchange between citizens and governments. Here, however, lies an underlying contradiction in much of American public choice theory. On the one hand, it cherishes the Wicksell fiscal connection as an exercise in free rational choice by individuals, though not collectivites (a recent handbook on *Public Choice* is dedicated to Wicksell and Musgrave; see Mueller 1997). Thereby, public choice theory, by assuming voluntary market-style exchanges and gains from trade, admittedly tends to overlook the coercive potential of public authority, as does, in retrospect, orthodox economics.

Yet public choice theory complains about the expansion of the welfare state and reliance on discretionary fiscal policy (budget deficits) as instruments of economic growth and stabilization. Thereby public choice theorists, however unwittingly, join conservative ideologues and politicians (politically speaking, the far-right) in the USA. They thus become warriors of a religious-like crusade against the welfare state or activist government

as opposite to Divine design and wish – American conservative politicians usually invoke their God in all debates ranging from taxes to abortion – and thus an unmitigated evil, namely, a legislative Leviathan (Cox and McCubbins 1993, with reference to the American Congress, especially its House of Representatives). However, it has been ‘a heavy irony that made the American political party seen as most sympathetic to [James] Buchanan’s philosophy – the Republicans – the carrier of the policies [deficits] that he feared would emerge from the use of fiscal policy for macroeconomic stabilization’ (De Long 1996, p. 48).

DISCUSSION

The above suggests that, as its leading exponents state, ‘all of the public choice or the economic theory of politics may be summarized as the rediscovery that people [are] rational utility-maximizers in all of their behavioural capacities’ (Buchanan 1991a, p. 39). In this view one ‘must always seek to understand political outcomes as a function of self-interested individual behaviours’ (Mashaw 1997, p. 11). In essence, the political process is depicted as being induced by private greed, including rent seeking, as a unifying theme of public choice theory that thereby acquired its reputation as the modern dismal science (Rossi 1998). In retrospect, it appears that contemporary public choice theory sounds much more dismal themes and paints bleaker pictures than its conceptual predecessors such as orthodox economics (for example, the iron law of subsistence wages) and Benthamite utilitarianism. In its practical policy implications, such a dismal theme of ubiquitous rent seeking by political officials and administrators explicitly suggests or implies abolition or radical reduction of government, especially the administrative state (Mashaw 1997).

No doubt, some moderate, that is, teleologically softer and thicker versions of public choice theory, especially outside economics, envisage the co-existence and operation of other factors in political life, including public administration. These factors include social norms besides individual economic maximization, intrinsic or dis-interested motivation parallel with extrinsic incentives, as well as emotions alongside cold cost-benefit calculations. However, these additional variables of a non-economic character are usually attributed, in some kind of ad- or post-hoc theory construction (Green and Shapiro 1994), a secondary relevance in relation to the economic. The rationale for this attribution seems compelling to most adherents of public choice theory. The prevalent view seems to be that ‘it is possible to imagine a world in which everyone always acts for his own selfish benefits, whereas a world in which everyone acts exclusively for the sake of others is an incoherent notion’ (Elster 1989, p. 34).

In consequence, these private benefits and related (quasi-) economic variables are treated as being of first-order, and social considerations of second-order. Presumably, the ‘second-order values of altruism and morality are parasitic on the existence of some first-order benefits’ (Elster 1989, p. 34).

Hence, rational choice theorists in their picture of the polity paint political subjects, including public officials and individual citizens, as rational egoists or rational men (Coleman 1986, pp. 4–5). Thus some sociologists declare that in analysing certain of the most important problems of their discipline, including organization and administration, they start with a paradigm of rational action imported from economics (Coleman 1986, p. 11). Yet, in a sense this seems ironic since, as some modern economists observe, whereas 'leading economists such as Smith, Ricardo, Marx, Keynes, Hayek, Simon and Coase, all failed to incorporate the standard picture of rational economic man in their writings, or expressed profound misgivings about his behaviour [in turn] much of [modern] sociology [and political science] has now embraced rational choice' (Hodgson 1998, p. 189).

For public choice theorists, the methodological justification for assuming first- vs second-order factors in sociopolitical behaviour lies in the fact that in theorizing behaviour one is to begin with the 'logically most simple type of motivation: rational, selfish, outcome-oriented behaviour' (Elster 1989, p. 35). Alternatively, 'only if this extrinsic or instrumental motivation is revealed as implausible, one should incorporate more complex types, namely, non-rational, non-instrumental, unselfish motivation. However, despite, or perhaps because of, its simplicity and parsimony, this instrumental approach may be inadequate (Weingast 1995) from the start in light of the reported salience of non-instrumental or intrinsic motivations in much of political life. In addition, critiques remark that such an approach can degenerate into ad-hockery. Adding – in an infinite regress or progress – new supplementary hypotheses to explain cases that have invalidated the initial hypothesis, for example, utility or profit maximization, can alter public choice theory beyond recognition (Green and Shapiro 1994). (However, in a critical review of Green and Shapiro's book, Shepsle [1995] claims that this fails as a convincing critique of rational choice applications in political science. For Shepsle this is due to an over-emphasis on statistical forms of assessment, in which rational choice theory is compared against an ideal rather than concrete alternatives, as well as to a failure to note some recent sophisticated empirical tests of its hypotheses.)

Now, some leading economists have misgivings about the public choice depiction of political actors, including bureaucrats, as political and bureaucratic entrepreneurs seeking monetary or material rewards for efficient behaviour (Wittman 1995, pp. 2–5). Insofar as in applying economic theory and methodology to political phenomena, public choice theorists reduce these to markets, they overlook the fact that the 'market [economy] is one system; the polity another' (Arrow 1997, p. 765). What is thus neglected is that the polity is not simply a market but a complex of non-market political institutions or non-market decision making (Meiselman 1992; Yet, Meiselman poses, and implicitly answers in the affirmative, the question: 'If we must use the best analytical, mathematical, and statistical tools to analyze private *choice* and market decision-making, should we not use the best tools

for analyzing nonmarket decisionmaking by governments, bureaus, politicians, and legislatures in the formation of *public* policies?').

Earlier, some economists (Arrow 1950, p. 328), in reference to a capitalist democracy, have distinguished voting, as a method of making political decisions, from the market mechanism, as a method used to make economic decisions. In turn they defined both the polity, more precisely voting, and the market as methods of 'amalgamating the tastes of many individuals in the making of social choices'. Admittedly, just as 'there is no method of voting which will remove the paradox of voting [an inconsistent pattern of social choice], similarly, the market mechanism does not create a rational social choice' (Arrow 1950, p. 342). In this view, in addition to voting and markets, other possible methods of social choice, especially in traditional and non-democratic societies, and 'even in smaller social units within the democracies', are dictatorship and convention/tradition.

Nonetheless, there is no doubt that many public choice theorists have evolved in various ways away from an initially rigorous economic paradigm of politics as a market (Sugden 1999). Thus, recognizing the social character of political (and other human) behaviour and the associated role of social groups in politics, some public choice theorists (Winden 1999) suggest a shift from methodological individualism [sic!], seen as leading to an over-individualized or a-social, view, to a group frame of reference. While ritually extolling rational choice theory, others recommend incorporation of social variables such as mutual trust, cooperation, and norms (Ostrom 1989). For instance, mutual trust in political behaviour involves organizational trust in public administrators and political leaders, that is, people's confidence in government agencies and their employees. And such trust is impossible to maintain or restore if all political subjects are selfish maximizers, rent-seekers, spenders of taxpayers' money, and so on, as depicted in public choice theory.

Hence, it is an oversimplification of the public choice (and any other) paradigm to assume a monolithic, narrow-minded *Weltanschauung* and approach that probably do not precisely portray the paradigm. Still, despite the variations in a less economic direction (Sugden 1999), what unites public choice theory's seemingly diverse strands is the extension of economic principles and methods to analysing politics, namely, 'application of the assumptions and methodology of microeconomics to describe or predict the way public officials exercise power' (Rossi 1998, p. 1746). Its adherents view such an application as the novelty and comparative advantage of public (and all rational) choice theory in relation to traditional political science and sociology criticized for regarding political subjects as idealistic (Meiselman 1992) creatures.

Public choice theory is sometimes also called (a part of) the new positive political economy. Some writers define positive political economy as the study of rational decision and action in a context of political-economic institutions (Alt and Shepsle 1990, p. 2). In a broad interpretation, such a defi-

nition implies that political economy as encompassing 'both economic behaviour in political processes and political behaviour in the marketplace' (Rowley 1992, p. 898). However, one can object that this definition 'is very broad [and] is more akin to what the classics understood to be economics than with Public Choice where the interaction between the economy and the polity is stressed' (Frey 1991, p. 629). Further, some of its advocates (Mashaw 1998) claim that public choice is a Comptean positive (rather than normative) theory that, like physics, specializes in description, prediction and prediction. Arguably, learning from its insights is not impeded by lack of a unified public choice theory of voting, institutional behaviour and other phenomena (making even a comparison with the absence of a unifying theory of matter and energy in physics, see Mashaw 1998, p. 44). Nonetheless, most public choice theory and methodology, even self-proclaimed positivist formulations, possess certain normative implications. Thus, its key assumptions, as well as its specifications of and applications to (desirable) institutional design can and do influence the preferences of actors (Rossi 1998).

CONCLUDING REMARKS

In retrospect, 'what public choice theory took from economics was the formal apparatus of rational choice, and what it looked for – and failed to find – in politics was the collective analogue of the standard assumptions of individual rationality' (Sugden 1999, p. 1716), namely, maximization of expected utility. Admittedly, public choice theory, namely, the 'assumption that all individuals maximize only their own expected utility is unrealistic and leads to certain problems for the *theory* applying it' (Bernholz 1998). In consequence of such failures and problems, some of its leading advocates even lament that public choice theory has almost died out (Tullock 1998) in recent years after the initial burst of interest, high expectations and vigour in the 1950–70s. Curiously, some of its founders (Tullock 1998, p. 39) imply that public choice theory has now expired, especially as the result of a set of unremittingly negative conclusions drawn from various political anomalies and paradoxes. In particular, the Condorcet and Arrow paradoxes (the impossibility theorem), as well as the voting paradox, etc. are seen as the 'cause of death' (Sugden 1999, p. 1716).

The above seems to suggest the need for more complex alternatives to the single economic paradigm of politics. Notably, moderate public choice theorists make suggestions and attempts to incorporate the ideas of leading classical sociologists (Durkheim) in their theory. Generally, they maintain that, contrary to the public choice literature, economic (rational choice) and sociological (cultural-analysis) approaches to politics are complementary rather than mutually exclusive and antagonistic. Admittedly, cultural, especially interpretivist, approaches particularly highlight the power of ideas, the importance of history or path dependence in politics, the role of intellectuals, and the persuasive properties of political rhetoric and drama-

turgy (Bates *et al.* 1998). Some authors (Brans and Rossbach 1997) suggest applying Luhmann's theory of social systems to public administration. They conclude that a major advantage of such an application is that Luhmann's theory of social systems conceptualizes the operation of public administration within a complex picture of the larger society, including both decision-making agency and macro-social structure.

The preceding considerations also suggest the following suggestions and directions for further theory building and research in bureaucratic administration and related fields. One direction relates to the alternative treatment of bureaucratic administration as a particular form of social system or social structure rather than as a business enterprise or firm as done in public choice theory. Another related direction concerns the description of bureaucrats and public administrators generally as complex agents rather than simple-minded maximizers, that is, as closer to *homo sociologicus* in the sense of a complex social agent, than *homo economicus* as actor model in public choice theory. As a corollary of the preceding, still another direction pertains to the possibility that a sociological perspective on bureaucratic administration, such as the sociology of organizations including Weber's theory of bureaucracy, may be at least as legitimate and adequate as a rational choice approach or the economics of organization. Hence, despite public choice theorists' claims for providing a definitive solution to the problems of bureaucratic administration, a lot of work still remains to be done.

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'MANAGEMENT BY CONTRACT': A STUDY OF PROGRAMMATIC AND TECHNOLOGICAL ASPECTS

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The practice of 'Management by Contract' can – as with any practice – be characterized by programmatic and technological dimensions. These dimensions contain concepts and ideas at the programmatic level, which shape the mission of the practice (concrete tasks and routines) at the technological level. Thus, the former attach the practice to the broader conceptual dimension. In this paper both of these dimensions will be analysed. The aim is to study how quality issues have been managed by contract. The first part presents some of the conceptual arguments of 'Management by Contract'. The arguments of a structure generally used (the Purchaser/Provider split) and a method often used (competitive tendering) will be discussed. The second part presents some technological effects through empirical findings. The paper concludes with an analysis of the interaction or non-interaction between these two dimensions.

INTRODUCTION

The option of entering into a contract for various goods and services has been utilized by the public sector from time immemorial. An example of this would be contracts for major projects and constructions, where the public sector organization itself does not have the necessary skill and competence. However, over the past 20 years there has been a noticeable increase in activities (both support and core activities) that are put out to tender with public organizations in the role of the purchaser. This development is a global phenomenon and is taking place at a particularly rapid pace in countries such as the USA and the UK (Walsh 1995). In this development we have also been able to perceive a tendency for the public sector to look on other established institutions as examples: institutions such as the Market or the Company (Brunsson 1992, 1998). This means, amongst other things, that quasi-markets have emerged in which potential producers compete by submitting tenders to carry out the public service during the agreed time period (Le Grand and Bartlett 1993). It also signifies a belief in a more action-oriented administration within public organization and where the concept and phenomenon of 'management by contract' is to help form the basis for the management of quality and objectives of the activity purchased. In a sense we can thus say that the *contract* has become a metaphor for capturing the change in management and control within the public

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sector. A paradigm shift is said to be in progress towards *management by contract* instead of the previous *management by hierarchy* (Burns *et al.* 1994).

As a researcher one presumably has the perception that paradigm shifts are not concerned with trifles. They are often accompanied by complex processes involving the re-examination of earlier conceptions, reflection and sometimes great soul-searching. It is thus no exaggeration to maintain that the transformation of management systems and processes within the public sector into management by contract may involve a substantial change in old notions. These changed views emanate from a number of new (or at least current) and transforming ideas. If the ideas regiment our conceptions in the longer term, then what we generally call an institution is formed. The ideas may also have practical consequences. Sometimes the idea and practice may be in harmony with each other; at other times they may not harmonise at all. In the present study it is therefore important to differentiate between the concept and the phenomenon of 'management by contract' (cf. Mattessich 1995) since the latter situation may pose an obstacle to the analysis and understanding of an institution. This means that good analyses of an institution as an idea may be misleading if they are used to analyse the practice of it, and vice versa. In other words, therefore, it is important to differentiate analytically between idea and practice (Brunsson 1992).

We can also express the above argument in terms of a programmatic and a technological dimension respectively (refer for example to Meyer and Rowan 1977; Rose and Miller 1992; Miller and O'Leary 1998; Miller and Rose 1998). The programmatic dimension incorporates the main concept and ideas. In purely general terms, programmes can be related to the normative concept and ideas, which are then transformed and introduced into a specific activity in order thereby to form its task in practice. Focusing on the latter, we can then talk about a technological dimension. This is where the technologies that are engendered in the transformation and the interaction between these two dimensions are found (Almqvist and Skoog 1999). Here we are concerned with concrete tasks and routines that help to create a world for the practitioners. If we look at the phenomenon of 'management by contract', the technological dimension may include the development of different management control systems or models in the enterprise. The aims of these models may be, for example, well thought-out purchaser functions, management control systems for costs and quality, MBO-models, performance measurement systems, and so on. The programmatic dimension thus links the practice and its technologies to the broader and more generally held objectives that exist in its conceptual sphere. Moreover, it is more or less taken for granted that the practice is capable of operationalizing, implementing and meeting these goals (Power 1997); in other words, that it is possible to construct technologies with a view to meeting these goals.

Thus, just as in the case of other phenomena there is again a whole range of ideas concerning how this phenomenon should be designed, for example,

on the basis of structural and methodological aspects. A formal structure that is often used is known as the Purchaser/Provider model. This means exactly what the name suggests: a separation of the purchase/ordering of public services and their provision (Bailey 1999). Historically, the structure has primarily been implemented within 'hard' activities such as street, park and house cleaning, refuse collection, catering, etc. (Bailey and Davidson 1997; Kerley and Wynn 1990; Knox and Young, a 1995; The Local Government Management Board 1995), but has now spread to 'softer' activities such as health and social services (Bailey and Davidson 1999; Walsh 1995). This method has often been based on putting one half of the structure – the provider side – out to competitive tender in order thereby to enter into a contract with the (external or internal) provider representing the most attractive option amongst the bidders in the eyes of the purchaser.

The phenomenon of 'management by contract' can thus be characterized in terms of a programmatic and a technological dimension respectively. Both these dimensions are discussed in this paper. The first section provides an overview of some conceptual arguments behind 'management by contract'. We will touch upon the argument for a frequently recurring structure (the Purchaser/Provider model) as well as a method that has become seen as increasingly conventional in recent times: competitive tendering. In the second section we will look close at the technological dimension and study how a technology was formed in practice; more specifically, how the stakeholders involved (purchaser and provider) dealt with quality issues in the tendering processes.

SOME CONCEPTUAL ARGUMENTS BEHIND 'MANAGEMENT BY CONTRACT'

The phenomenon of 'management by contract' can thus be characterized partly on the basis of a programmatic dimension. Here the concepts and ideas, which in practical terms are to form the legitimizing argument, are constructed and brought together (Brunsson 1992). According to Miller and Rose (1998; see also Rose and Miller 1992), this dimension is not only programmatic for its strive to reform the reality, but also because it has a hint of a continual optimism that a domain or a society can be administered better and more efficiently. We will now look at some conceptual arguments for 'management by contract' within the public sector.

The approach of public organizations as regards entering into contracts with different providers varies. According to Walsh (1995), three different approaches can be distinguished: internal contract, competitive tendering and contracting out. The last approach ignores in-house units and instead aims to outsource the activity to an external producer. One reason may be that the public organization itself lacks the resources to perform a task. It may then be natural to have it carried out by another party with the appropriate resources and the necessary skills. However, the most common approach in local government activities – and the one studied in more detail

in this study – is competitive tendering, which has awoken great interest in countries such as Australia, The Netherlands, New Zealand, the UK and Sweden. The important aspect of this method is that the municipalities' own production units are allowed to join in and compete with external bidders in the tendering process. In other words, the in-house unit submits a tender for the right to perform the service for the agreed period just as the external bidders. This method is thus based on an idea which ignores whether the service is performed by a private sector or a public sector party – rather, it is the competition in itself that is seen as of importance (Bishop and Kay 1998; Vickers and Yarrow 1998; Harrison *et al.* 1990).

Why do public organizations choose to enter into contracts with internal or external parties as providers during an agreed time period in forms of competition? There are a number of arguments – political (Walsh 1995), democratic (von Otter and Saltman 1990), and so on – which deal with this. Another kind of argument that is often heard in the debate is the efficiency argument. Exposing public organizations to competition is seen as a good way of ensuring that the best value for money is obtained, namely, cost-effective activities (Bailey 1999; Boyne 1998; Brunsson and Hägg 1992). In terms of conventional economic market theory, both efficiency and quality are maximized if a number of potential providers compete for the right to provide a certain service for a certain time period (Ellwood 1996). However, these do not need to be many in number. A single competitor to the provider that won the contract may be sufficient (Propper 1993). These theories go on to say that the threat of competition is sufficient to create the incentive for increased efficiency (Baumol *et al.* 1988; Dodgson and Topham 1988; Sorensen 1993; Vickers and Yarrow 1988).

One argument for exposing public organizations to competitive tendering thus involves increasing the cost-effectiveness of the activities. This is a financial measure that also encompasses a quality dimension. A great deal of research has been carried out (as well as research into this research) concerning the cost effects of competitive tendering in public management and organization (refer, for example, to Bailey and Davidson 1996; Boyne 1998). One could even claim that the research has succeeded in reaching the conclusion that one effect of competitive tendering is improved technical productivity through the budgeting of resources used and the elimination of organizational slack. However, empirical research that takes into consideration the other component in the definition of cost efficiency – namely *quality* – is not found so frequently (Bailey 1999).

According to the concept of the Purchaser/Provider model, it is the purchaser's role to plan, define and evaluate the service that is to be realized by the provider. This is often formalized through a flow of documentation consisting of invitation to tender, tender and contract. This in turn generally requires administrative systems for ordering, invoicing and payments and, last but not least, formal specifications that provide a basis for management control through the contract (Walsh 1994). Naturally this also applies to

quality aspects of the activity, which then need to be operationalized in some way. There are primarily two approaches when it comes to specifying a contract in respect of management control. The first involves the purchaser defining the expected result of the task that is to be performed, or more specifically what outcome are expected of the provider's work. This implies that it is entirely up to the provider to determine the method, or *how* the task is to be performed. In less complex activities, such as refuse collection and park maintenance, it is relatively easy to establish the outcome. In more complex activities such as care and social services this is obviously not so simple. If the purchaser has no suggestions as to how the outcome are to be established, the purchaser may instead refer to the methods that the provider is to use in the production processes (Walsh 1995). The idea of the Purchaser/Provider model is based on the use of the first of the two approaches above. Public organizations that use such structures do not take any formal responsibility for resources and processes in the activity contracted. The responsibility for these subjects lies with the provider. The purchaser's responsibility is rather to manage and control the activity such that the performance and outcome of the activity are satisfactory (Audit Commission 1993). The ideal therefore stipulates that clear guidelines and social goals are to emerge from the contract. In addition, it must be possible to control and measure the goal achievement (Bailey 1999). In somewhat simplified terms, this approach is based on purchasers telling potential providers: Here are the performance, the outcome and the objectives you are to achieve – now find an efficient method of achieving them'.

'MANAGEMENT BY CONTRACT': A NEW MANAGEMENT TECHNOLOGY

One way of studying the phenomenon of 'management by contract' is to look more closely at competitive tendering processes that have been carried out. The purpose of this study is precisely to approach the technological dimension and to study how quality matters have been dealt with in these competitive tendering processes. The purpose is thus to clarify the way in which quality is highlighted in the invitation to tender, the tender and the contract. The following questions are of empirical interest:

- Are quality criteria defined in the invitation to tender?
- If so, to what do they refer?
- How concrete are the terms in which they are defined?

To get answers to these empirically based questions we will study an organization that introduced competitive tendering a number of years ago. In February 1993, the City of Stockholm decided that the city's enterprises should gradually be exposed to competition. In principle, all activities – excluding the exercise of authority and cash-financed activities – were to be exposed to competitive tendering over a five-year period.

THE MODEL USED FOR ANALYSIS

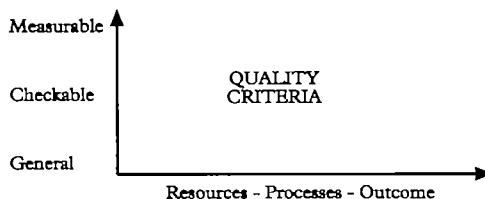
Ten tendering processes within the framework of the City of Stockholm's Competition Programme were studied. All refer to competitive tendering of social services, for example, nursing homes, social service housing, home-help services, and so on. The method used was to study the way in which quality issues were dealt with in the documentation resulting from the tendering processes, that is, the invitation to tender, the tender itself and finally the contract. It was also possible to use empirical material from another study of the City of Stockholm's Competition Programme (Almqvist 1996a, 1999) in order to interpret and understand the approach of the technological dimension. This material consists firstly of an interview survey of 19 purchasing managers and secondly of questionnaires and personal interviews with 11 managers of profit centres (in-house) which were selected for inclusion in the competitive tendering process. The profit centre managers include both some who won and some who lost the tendering processes in which they participated.

The analysis of the documents is based on a particular model (Almqvist 1996b). As a first step, the quality criteria that occur in the tendering documents are identified (where the tenders were concerned, only the winning tender was used in the analysis) together with what they refer: resources, processes and outcome achieved in the form of the result quality. In the next step the quality criteria occurring in the tender documentation were assessed on a scale of 0 to 3 depending on how concrete the terms were in which they were put (objectification): *measurable* (level 3), *checkable* (level 2), and *generally* stated (level 1).

Once the quality criterion in question had been applied to all the documents and assessed in accordance with the scale above, a mean value was calculated. This enables us to establish at an aggregate level which quality criterion or criteria were developed well and which were neglected. This also allows us to compare the contract with the invitation to tender and the tender and to obtain a general picture of the quality discussion in the tendering documentation.

The model constructed for analysis is thus designed around two dimensions. One dimension tells us to what the quality criterion in question refers; the other tells us how concrete it is (figure 1).

FIGURE 1. *The two dimensions of the model constructed for analysis applied to the invitation to tender, the tender and the contract*



It should be mentioned that in the use of such analysis models, the researcher faces the challenge of classifying different measurements, criteria and other indicators that are used in organizations' information systems in such a way that they can be included in the model in a reasonable way. In principle and in theory, this can take place without problem. In practice, however, it was not always obvious where the limits lay between the different categories in the dimensions. Rather it was a matter of weighing up whether the criteria in question should be placed in one category or another (see Hansson *et al.* 1993).

TEN TENDERING PROCESSES WITHIN THE FRAMEWORK OF THE COMPETITION PROGRAMME

Are quality criteria defined in the invitation to tender? The answer must be yes. The examination of 10 tendering processes shows that the purchaser and provider appear to be characterized by thinking about quality. There seems to be an awareness of the fact that it is of great importance to emphasize quality in tender documentation of this kind. Most of the documents within the tendering processes contain a prominent discussion of the quality of the activity. Following analysis of the 10 tendering cases, 12 quality criteria emerged as occurring particularly often.

To what do the 12 quality criteria refer? Quite clearly it is quality criteria relating to processes that dominate in the tendering documentation: competence development, availability, continuity, and so on. In only one case did a purchaser actually formulate a goal of result quality worthy of the name which in addition is measurable.

How concrete are the quality criteria in the tendering documentation? Table 1 shows the mean value for each quality criterion, this time subdivided into the categories invitation to tender, tender and contract.

What does table 1 tell us? Firstly, when the data material is dealt with at an aggregate level there is no single quality criterion that is measurable (however, in a single tendering case one quality goal in respect of outcome is formulated as measurable in the invitation to tender and tender). Moreover, at aggregate data level there are few quality criteria that can be judged as being capable of being checkable (although certain quality criteria can be judged as being capable of being checkable in certain tendering cases). Secondly, table 1 tells us that the purchaser and provider objectify different quality criteria in their respective objectification processes. If we look at the four most concrete quality criteria for each stakeholder, in the case of the purchasers these are (in order of priority): competence, availability, management control/evaluation and quality goals in respect of outcome. In the case of the providers they are: availability, information/communication, competence and the user modification. In the final analysis, the four most concrete criteria in the contract are: user modification, information/communication, transparency (an added parameter) and availability. It is thus clear that there is a certain amount of discrepancy between what the

TABLE 1 *Ranking of quality criteria at aggregate level in the three tendering documents (mean value)*

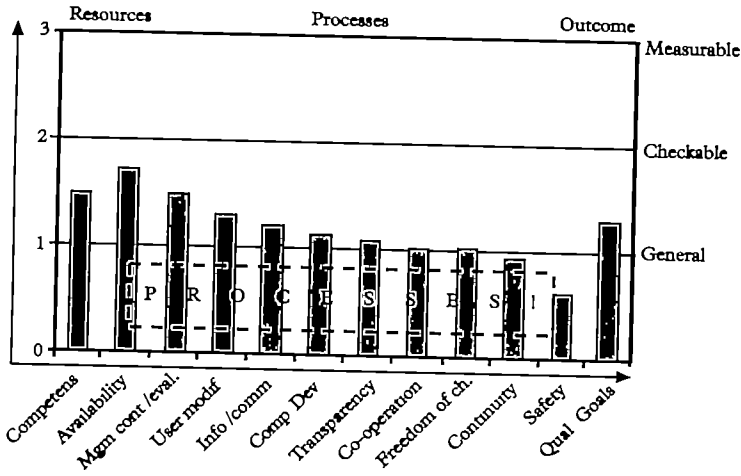
Invitation to tender	Tender		Contract		Total	
Competence of staff	2.0	Availability	1.7	User modification	1.7	Availability
Availability	2.0	Information/communication	1.5	Information/communication	1.5	Competence of staff
Management control/evaluation	1.8	Competence of staff	1.4	Transparency	1.5	Management control/evaluation
Quality goals in respect of outcome	1.7	User modification	1.4	Availability	1.5	Quality goals in respect of outcome
Transparency	1.3	Competence development	1.3	Management control/evaluation	1.5	User modification
Co-operation	1.3	Continuity	1.3	Co-operation	1.3	Information/communication
Freedom of choice	1.1	Quality goals in respect of outcome	1.2	Competence of staff	1.1	Competence development
Competence development	1.0	Management control/evaluation	1.2	Competence development	1.1	Transparency
User modification	0.8	Freedom of choice	0.9	Quality goals in respect of outcome	1.1	Co-operation
Information/communication	0.7	Transparency	0.5	Freedom of choice	1.1	Freedom of choice
Safety	0.7	Co-operation	0.5	Continuity	1.0	Continuity
Continuity	0.6	Safety	0.4	Safety	0.8	Safety

two stakeholders put in concrete terms in their respective presentations of the quality issues, and also between the criteria initially mentioned and the final criteria objectified in the contract. In certain respects the contract is the most important document and possibly that amongst the documents which is decisive for how the relationship between the stakeholders develops after the actual tendering process. However, the column on the far right in table 1 is still interesting to study. It shows (when the data material is processed at aggregate level) which quality criteria have a low and a high level of objectification respectively seen throughout the tendering process, that is, from the invitation to tender to the final contract.

So what is the end result of this analysis? If we now complete the circle and conclude the empirical results by introducing our data into the model used for analysis we find that it looks as follows (figure 2).

Figure 2 includes all the quality criteria in the invitations to tender, tenders and contracts studied. We already know from our earlier report of the results that most of the quality criteria in the tender documentation deal with process quality. What figure 2 also illustrates is that at an aggregate

FIGURE 2. Quality criteria analysed at aggregate level on the basis of the two dimensions in the model used for analyses



level and seen through the whole tendering process no quality criterion reaches a mean value of 2. In other words, no quality criterion is the level of objectification of *checkable* or *measurable* in any part of the tendering of the activity. The figure also shows that *availability*, *competence* and *management control/evaluation* are the quality criteria that achieved the highest mean values and thus the criteria that are objectified most when viewed over the tendering process as a whole.

[DE]COUPLING OF THE CONCEPTUAL ARGUMENTS IN AN EXAMPLE OF LOCAL MANAGEMENT TECHNOLOGY

So what conclusions can be drawn from the results presented?

The conceptual arguments presented previously told us amongst other things that efficiency and quality are favoured if a number of potential providers compete for the right to supply a certain service during a certain period of time. However, they do not need be many in number and the threat of competition should be sufficient to create motivation for improved efficiency. When the City of Stockholm put its 'soft' activities out to tender, however, it was found that there was a large number of potential providers who submitted bids for the right to be producers of the service. An average (median) of seven bids per invitation to tender can be seen as some form of [quasi-]market having been created during the time of the Competition Programme. One effect was a reduction in costs, including within contracted out care of the elderly, of around 12 per cent gross (Högberg 1996). The threat of competition that was highlighted in the theories was also assessed by the researchers in the evaluation as having had certain effects in the form of cost reductions (Almqvist 1996a, 1999). Moreover, a Purchaser/Provider

model was adopted by the majority of social services districts in conjunction with the introduction of the Competition Programme. At the time of the study most social services districts had introduced some kind of purchaser/provider function, which was managed by a purchasing or production manager. The structural conditions for creating cost efficiency in accordance with the concept had thus become established in practice in this case. When the competitive tendering processes was then introduced and dialogue took place between the purchaser and bidders, these two components – i.e. costs and quality – were also dealt with within the concept of cost effectiveness in the tender documentation.

To this extent there is agreement. Otherwise, however, there is a big gap between the programmatic and technological dimensions. From what has been shown earlier, the practice does not live up to what was advocated in the concept as regards managing quality by contract. Firstly, the contract is not designed for managing the outcome of the service (the quality of the result) seen from the point of view of the quality of the activity. Secondly, it is not generally designed such that the quality of the result can be measured or checked. The quality criteria that appear in the tender documentation are for the most part discussed in general terms and are primarily oriented towards processes.

There may be a number of different explanations as to why the practice is as it is. In the case of the purchasers and in-house providers of the City of Stockholm, this was an entirely new situation and it is reasonable to assume that they were in a learning process as regards the formulation of tender documentation. The interviews with the in-house managers also confirmed that they are 'not used to putting down activities on paper' and that competence in respect of purchase by tender was lacking when the Competition Programme was introduced. Moreover, the rate of the actual introduction of the Competition Programme was high. Drawing up documents that set requirements using measurable quality criteria that focus on the outcome of the services is difficult. It requires reasonably formalized and systematized quality and management control systems, all of which were in short supply in the organization studied (Almqvist 1998) and thus also in the contracts. In addition, there was no habit in the organization of measuring and managing quality in the way advocated by the concept. Von Otter and Saltman (1990) maintain that the prevailing focus on measurements that attempt to measure inputs rather than outputs is an effect of deeply rooted patterns of institutional authority and organizational behaviour within the public sector. One explanation might therefore be that the purchasers and providers within the City of Stockholm have not yet progressed very far in the learning process. However, they may gradually come to do so and will then specify their management by contract such that measurable quality criteria that are focused on the outcome of the services are provided. Nonetheless, this may be refuted by the fact that the external tenders from private providers did not highlight measurable qual-

ity criteria focusing on outcome either. They, after all, might be expected to be further forward than the purchasers and providers within the City of Stockholm in this respect in view of the fact that to some extent they are used to formulating tenders and 'selling themselves', so to speak (which was also the impression given when reading the tender documentation). On the other hand, they may have realized that they did not need to be any clearer in their tenders because the tender documentation did not call for them to be so.

Another explanation, an entirely different one, concerns the conceptions and judgements of the organization studied regarding what defines quality in this type of activity. Previous interviews show that the conceptions of purchasers concerning quality are concerned with the quality of processes, rather than the quality of results (Bailey and Davidson 1996). One reason why the quality aspects are as they are in the documentation could therefore be that they are underpinned by strong conceptions and judgements that this is 'the right way'. A number of services, such as social workers' visits to users, are quite simply not suitable for being operationalized and standardized. Such services are produced jointly by the meeting of care provider and care user, and instead involve a large portion of judgement. This is the problem of the quality approach that is based on precise specifications laid down beforehand (Pollit and Bouckaert 1995). The quality awareness may instead basically deal with various processes in the activity, such as *how* the availability, continuity, user modification, and so on, are designed. In this way the actual meeting with the user becomes more important than the outcome of the meeting. Neither is there any judgement in the organization which advocates measurement or behavioural management of these meetings. The explanation could thus be that the conceptions and judgements concerning quality that prevail in the organization vastly exceed what the concept advocates. The concept is thus not anchored in everyday routine technologies and perhaps it never will be.

Another explanation can be found in ideas concerning the relationship between the contracting parties. In the main, there are two fundamentally different ways of viewing a relationship between two parties who are linked by a contract (Walsh 1995). One viewpoint is based on the idea that the purchaser and provider have vastly differing interests and that the latter will not act in accordance with the purchaser's interests without an overlying threat of sanctions. The second viewpoint is based on the idea that in entering into the contract the purchaser and provider have entered into close co-operation. This viewpoint emphasizes the need for reciprocal trust and the establishment of long-term stakeholder relations (Lind 1995). Sanctions are seen as an ineffective tool for remedying failures. In the event of problems, the parties should instead sit down together and work out how to achieve certain objectives in the enterprise or how difficulties are to be overcome. In public services – with often very complex activities – the latter approach to relations established by contract is possibly the most reason-

able. This is due to the difficulties associated with the management and control of performance of services and the meeting of objectives associated with these activities. One way of strengthening the relationship with an agent is to attempt to link the agent to the client's organization and to take an attitude that is more reminiscent of the relationship with other employees within the organization rather than that with an 'outsider' whom one attempts to control at arm's length. Such an attitude tends to lead to greater focus on trust and building up good relations rather than the focus on rights and obligations in accordance with the contract itself. Referring to the contract is the final resort, so to speak (Walsh 1995). Research carried out by Ouchi (1979), amongst others, shows moreover that management control through the establishment of detailed measurement and control systems tends to reduce enthusiasm for the work and breaks down the trust between the parties involved in economic or social transactions. The explanation probably then lies in the fact that people involved in competitive tendering processes choose not to design the contract so as to allow measurement and control of specified quality criteria or indicators because it could break down the trust between the parties. However, there is also an underlying argument of an economic nature in this reasoning. It is not only in terms of the trust between the parties that it may be costly to spend a lot of time and energy on specifying and following up the contract. This can also result in high transaction costs for the client (Coulson 1998). In all probability, well-specified contracts require additional work of a proactive nature during the outlining phase, while at the same time they require additional work of a reactive nature when it is time to start following up whether the contract has been met. These transaction costs can thus be kept in check by adopting a more trust-based approach when the contractual relationships are established.

However, contracts and trust are not direct opposites of each other (*ibid.*). If we extend the trust-based approach as far as it will go there is a risk that we end up in a Utopian dimension in which characteristics such as the provider's quality viewpoint, good working methods, high quality awareness, and so on, are taken for granted. The risk of such an approach, according to Williamson (1985), is that one makes oneself too vulnerable and open to opportunism. Instead, contracts and trust must go hand in hand. In other words, a contractual relationship also requires a certain amount of underlying trust. If a purchaser does not have confidence in a particular potential provider, there will doubtless be no contract between them at all. However, if there is a basic confidence and the contractual relationship is established, the type of management by contract will in all likelihood be affected by how this trust develops. During the study, this aspect was also pointed out in the course of a conversation with a purchasing manager. The manager felt that while that part of the tendering process which is documented is undoubtedly important, what is played out when the parties meet around the table is even more important. According to the manager, it is here that

trust and a basis for good relations can start to be built up. The fact that certain quality criteria are not specified in the contract in accordance with the purchaser's original inquiries may possibly be a result of what happened during discussions and negotiations around the table when the parties met. If the situation feels comfortable, and confidence emerges between the parties, then it is possible that they feel that certain aspects quite simply do not need to be specified in the contract. Thus, in the end, to enter into contractual relationships in this way can be a way of promoting trust between the two contracting parties. Or in other words, designed in certain, ways, the contract can act as a driver for producing trust.

Another explanation that is closely related to the above also concerns the relationship between the parties. According to Walsh (1995), there are three ways for the purchaser to have some kind of control over the provider when the conditions are such that the activity is difficult to measure and it is virtually impossible to control whether or not it is being carried out efficiently. Firstly, the purchaser can introduce mechanisms which ensure that the provider's commitments are reliable. Secondly, the purchaser can make sure that the provider shares his values and supports – and feels an obligation to – the idea of providing a good service. Finally, the purchaser, through the threat of sanctions, may press the producer to do a good job if there is any suspicion otherwise. Burns *et al.* (1994) emphasize the importance of the second of these attitudes and feel that the relations that are established by contract require the kind of confidence which is based on common values, the feeling of being 'a family' and the honest exchange both of information and staff between the parties. Where the tender documents in the study are concerned, these are drawn up in a spirit of discussion, conversation or reasoning concerning quality aspects of the enterprise. In this discussion it has emerged that a number of quality criteria are particularly prominent. However, generally speaking they are not focused on the outcome of the service, nor are they objectified so as to be measurable or checkable. Moreover, when reading the tender documentation one gets the impression that this was not the intention. Rather the intention seems to have been to present a quality philosophy or a picture of the values regarding quality that prevail within the organization and which are thought to be built up around the quality criteria identified. The explanation should thus be found in the fact that common values and viewpoints are more important and a better way of achieving one's goals than attempting management by sophisticated measurement and control systems.

A final explanation concerns the non-contractibility of quality (Domberger 1998). Some research suggests that in certain public sector activities, quality ultimately is a matter of judgement: it is difficult, if not impossible, to specify the requirements in a manner that leads to verifiable outcomes. In these circumstances it is easier to specify inputs rather than outputs or outcomes. If this is in practice the case, the explanation as to

why the tender documents do not focus on measurable outcomes of quality is simply because it is impossible to formulate and measure these outcomes, no matter how much the involved stakeholders may try.

If any truth can be attributed to the last four explanations then it is worth reflecting on how revolutionary 'management by contract' actually is. If it is the case that interested municipal stakeholders attempt to strengthen the relationship with outside stakeholders by linking them to the public organization in question and take an attitude that is more reminiscent of the relationship with other employees within the organization, then possibly the difference between the phenomena of 'management by hierarchy' and 'management by contract' is not that great. If it is also the case that trust, common values and viewpoints are characteristics that are rewarded rather than management control systems that precisely measure the outcome of services, it may be that the phenomenon of 'management by contract' involves a supplementing of certain prevailing conceptions rather than a complete paradigm shift.

SOME TECHNOLOGICAL ARGUMENTS FOR 'MANAGEMENT BY CONTRACT'

If the conceptual arguments behind 'management by contract' have not yet gained acceptance in practice and affected the local management technologies towards managing measurable quality outcome (all embedded in a competitive context to promote cost-effectiveness), then what arguments are left?

The researcher in the field, carrying out close study of the intended subject, often finds the opportunity to present empirical facts through observation of a certain phenomenon. It is then possible to find arguments of a different nature to those advocated in the concept. My method in this respect has been to meet people in the practical sphere in order to find out their experiences and what they say about the phenomenon of 'management by contract'. Since it was not possible to find any 'proof' of the practical existence of the conceptual arguments in the tender documents it seemed natural to interview stakeholders who had created, or are directly affected by, them (purchaser and provider) in order to get a picture of the phenomenon. However, these interviews did not confirm the establishment of the conceptual arguments in practice either. Nonetheless, following analysis of, and reflection on, the interview material, arguments emerged that signify the phenomenon of 'management by contract' but which are not very clearly coupled to the concept. Since these are arguments that are put forward by practitioners in the organization, the members of staff who are to do something concrete and routine from the concept, we can call these 'technological arguments'.

When the introduction of competitive tendering in the City of Stockholm was discussed during the interviews, opinion was divided as to whether this was a good or bad phenomenon for public sector services. Around

half the profit centre managers took a positive attitude to the Competition Programme initiated by the City of Stockholm; the other half took a negative attitude. However, when asked what was preferable in future, only a few answered that they would like to see care of the elderly in the City of Stockholm being exposed to competitive tendering in the future. Instead, a clear majority felt that care of the elderly should be provided under the auspices of the municipality. However, what may seem paradoxical is that in general these interview subjects did not take a negative attitude towards the concept of purchase by tender as such. Rather, during the interviews, the actual process of tendering the activity was applauded. The in-house providers (production managers and profit centre managers) who were involved in the tendering processes found it incredibly useful to be forced to sit down and start attempting to describe their activities on paper. This was something they were not used to and in turn forced them to both analyse the cost structure of the enterprise and to review and objectify both quality objectives and quality methods as well as routines in the work processes, or as one manager said: '...to analyse what we are actually doing and to turn it inside out in every detail'. For many managers on the provider side this developed into a level of reflection in which they started to look fairly critically at their own enterprises. In this self-critical state of 'looking at their own enterprises with new eyes', potential opportunities gradually emerged. Many started to see possible 'new ways' of carrying on their activity and in this way the tendering process had contributed to a new way of thinking – 'a vitalisation', according to one of the interview subjects – in respect of the processes in the activities as well as a good opportunity to get to 'try out new ideas'. One manager summarized this by saying that the tendering process meant that one 'invents and questions the municipal activity and processes and the whole thing becomes very apparent'. According to certain interview subjects, this led to new quality thinking. In these processes many interview subjects also highlighted the importance of involving the rest of the staff, which had the effect of further increasing the level of creativity in the enterprise. The staff became 'more willing to contribute ideas', as one manager described it. Many felt that this did not just encourage creativity, but also promoted competence in respect of their own activities and processes. Some kind of competence development beyond increased competence in competitive tendering is thus alleged to have come about. Certain managers also pointed out that the internal organizational changes were accelerated due to the fact that the tendering process had a deadline, that is, a certain date by which the tender was to be received by the purchaser.

The majority of managers thus felt that the above quality-promoting processes may come about with or without exposure to competition. Some felt that if competition was to prevail, then it was sufficient for municipal units to compete with each other without bringing in private stakeholders – a model which von Otter and Saltman (1990) call 'public sector competition'.

However, many felt that exposure to competition was not necessary at all in order to bring about the reflection on the activity described above. They emphasized the actual tendering process as the starting point for a calculating, reflective formulation and negotiation of the activity – that is, the reason for new ideas concerning how the activity should be carried out being brought to light. Certain examples were also highlighted during the interviews. During the period before the study, a break had been taken in the city's Competition Programme while awaiting an evaluation of it. However, certain social services districts in the city continued to enter into 'contracts' with their production units. The difference now, of course, was that the formal purchasing function was removed. Instead, the production managers in their social services districts functioned as a kind of informal purchaser who negotiated (rather than purchasing by tender) with subordinate profit centre managers concerning what the agreement for the activity (rather than the contract) should look like. In this way the production units were still forced to sit down and formulate a 'neat' proposal (rather than a tender), which the production manager was able to assess as acceptable, or as a basis for negotiation. Eventually an agreement was entered into with which the 'parties' were then to attempt to comply.

The respondents' argument is thus based on some form of 'internal contracting'. If we insert this argument into the theory presented above, we can see that it forms a new contribution in that it is then not competition, or the threat of competition, which is the greatest spur for implementing changes in public sector, but rather the tendering process itself. However, in the case of in-house units, this argument may seem obvious. After all, one reason why people do not want to see their enterprise subjected to competition may be that it involves a risk of losing in the tendering process, and thus also losing the operation of the enterprise. This may be why they suggest it would be worthwhile going through a tender process almost without competition.

Whether the arguments outlined above are tenable in the slightly longer term is open to question. However, whichever is the case, internal contracting may certainly be a good way of having the organization's own provider and purchaser functions become accustomed to formulating invitations to tender, tenders and contracts as an initial step. During the interviews, the majority of profit centre managers mentioned that they felt that the speed of the Competition Programme was far too fast. They felt that the time they had available to get to know the new routines that a tendering process involves were far too tight. Consequently, a model which uses internal contracting for a period prior to the introduction of actual competition, could be good preparation for both the purchaser and provider within the organization's own units.

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THE NEW GOVERNANCE OF FRENCH EDUCATION?

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This article contributes to ongoing debates in comparative public administration through exploring the governance paradigm in the unfavourable empirical terrain of French education. After identifying potentially relevant features of governance, we investigate changing patterns of policy-making in French education at macro, meso and micro levels. Extrapolating research findings from extensive interviews and participant observation at ministerial meetings, we conclude the existence of a French-style governance that operates within distinctive ideational and institutional environments and interest structures. The article emphasizes the importance of historical and institutional traditions in framing the available pathways of governance.

INTRODUCTION

Education is permanently near the top of the political agenda in France. No other policy arena is so redolent of the French state tradition. Loyal to a coherent model of republican integration and threatened by a holistic Catholicism, the founding fathers of the Third Republic (1870–1940) viewed schools as the means to integrate young citizens into the universal, lay and modern values of French republicanism. Education was openly a form of social engineering. A national education system was valued as a means of disseminating republican ideals and subordinating France's variegated provinces to an enlightened central state. The spread of national education through the nineteenth and twentieth centuries gradually broke down older regional barriers and inculcated a well-defined sense of Frenchness, not least through imposing the use of French over minority languages and regional dialects. There remains a close linkage today between a national education system and a centralized conception of French citizenship.

This article contributes to ongoing debates in comparative public administration through exploring the governance paradigm in the domain of French education. We begin by identifying relevant features of governance that might be examined in this unfavourable empirical terrain. In the main body of the article we investigate changing patterns of policy-making in French education at macro, meso and micro levels. In the concluding section, we consider whether our research findings do or do not lend support to the governance approach. The research findings are extrapolated from around 70 semi-structured interviews at all levels of the French education

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policy community since 1994 and participant observation at ministerial meetings in 1999–2000.

Political science theory has long grappled with the circularity, indeterminacy and ambiguity of the concept of governance. Theorists typically understand governance to be wider than 'government', and to be a useful descriptor for the compound of diverse internal and external pressures that have reshaped traditional patterns of public administration in Western liberal democracies since the early 1980s. To undertake an in-depth review of the governance literature here would be neither appropriate nor feasible (but see the summaries in Pierre 2000). We can, however, draw some useful operational distinctions, most notably that between exogenous and endogenous governance. Exogenous governance presupposes that the wider structural context of government has changed under the impact of global economic pressures, regional integration in supranational organizations such as the European Union, and the increased incidence of transnational policy exchanges (Mayntz 1993; Hooghe, Marks and Blank 1996; Cerny 1997; Andrew and Goldsmith 1998; Kohler-Koch and Eisler 1999). Endogenous explanations place greater emphasis on internal changes in Western democracies, which have produced more interdependent actors, leading to 'overcrowded policy making' (Richardson and Jordan 1979), the rise of meso-level governments (Sharpe 1993; Rhodes 1996, 1997), a decentralization and fragmentation of the state (Loughlin and Keating 1997; Jessop 2000), and a greater involvement of private actors in public-policy-making processes (Bennett 1990; Stoker 1997, 1998).

In the policy domain of education, we understand governance primarily as an endogenous process. Following Rhodes (1996, 1997) and Stoker (1998) we conceive of governance as signifying changing patterns of public management, the emergence of new types of networked and interdependent relationships, the blurring of boundaries between the public, private and voluntary sectors and a more reflexive policy style. We acknowledge that most French academic analysis is rather sceptical of the concept of governance and that governance paradigms have been primarily framed in an Anglo-Saxon context, or at least not in a French one (Mabileau 1997; Gaudin 1998, 1999; Jouve and Léfèvre 1999; Smith 1999). We propose the definition of a French-style governance, adapting the concept of governance to French conditions, rather than abandoning it altogether.

MODERNIZING THE MAMMOTH: MACRO-LEVEL POLICY CHANGE IN FRENCH EDUCATION

If it alludes to anything, governance refers to changing organizational techniques and a calling into question of vertical forms of bureaucratic organization. The French Education Ministry, with its hierarchical modes of decision-making and implementation, its faith in the virtues of vertical bureaucratic integration and its belief in uniformity, provides a stiff test case for governance. As the former Education Minister Allègre (1997–2000)

discovered to his cost, any moves which appear to threaten established positions invariably run into powerful bureaucratic and professional opposition.

Centralization, uniformity and a neo-corporatist policy style are traditionally presented as the principal macro characteristics of the French secondary education system (Ambler 1985, 1995; Archer 1979; Broadfoot 1985; Duclaud-Williams 1993). Until the mid-1980s, the French model of school management was, by comparative standards, extremely centralized. Central government was responsible for the general organization of the education system, the building and maintenance of secondary schools (*lycées*), the regulation of national examinations, the content of the curriculum from the primary to the university sectors, the training of teachers, the organization of school timetables and the close control of teaching methods. The education system appeared impervious to change – except when forced to in a crisis such as that of May 1968 (Durand-Pringborne 1989). As an organization with 1 300 000 employees in 2000, the French Education Ministry is one of the world's largest bureaucratic structures; the weight of this bureaucratic leviathan, and the strength of the vested interests therein, is an additional force favouring centralization.

In the orthodox representation, the centralizing forces in French education are sustained by a powerful bureaucratic–professional coalition. The civil servants of the main divisions within the Education Ministry and the powerful teaching unions act as the gatekeepers of professionalization at a national level. So characteristic were professional influences on French education policy-making that the sector was described as neo-corporatist by Ambler (1985). Neo-corporatism refers to a close interdependent relationship between professional interest groups and the machinery of the state. Ambler diagnosed three neo-corporatist features to French educational management: a mass membership trade union movement in the form of the *Fédération de l'éducation nationale* (FEN); a centralized form of bargaining with access to central policy-makers; and extensive delegated administrative powers. As civil servants themselves, secondary school-teachers are the self-appointed high priests of a national system of professional regulation. They are organized into powerful trade unions which co-manage issues of salaries, pay and promotions with Education Ministry officials. This bureaucratic–professional coalition has a strong normative attachment to centralization as the only means of preserving public service, equality of opportunity and national standards.

These overarching trends of centralization, uniformity and neo-corporatism invest French secondary education with strongly insular features. This is a field where professional and bureaucratic influences are deeply embedded. The referential framework of public service provides a particularly constraining set of ideological beliefs concerning the role of teachers, parents and consumers. Public schools have traditionally been isolated from their social, cultural and economic environments in order to satisfy criteria

of natural justice and equality of opportunity as well as to lessen the effects of social and economic inequalities on education outcomes (Derouet 1991). Producers (teachers and officials) and consumers (parents and pupils) are equally attached to a system of national diplomas as a guarantee of social and occupational mobility. The institutions, interests and ideas that underpin the management of French education appear to converge to challenge key precepts of the governance paradigm as understood in the UK.

More thorough empirical investigation leads us to modify this view. The image of bureaucratic inertia must not be overstated, for reasons we explain below. As a more general point, the environment within which the Education Ministry operates has undergone radical changes. The numbers of pupils attending upper secondary schools (*lycées*) has grown strongly since the mid-1980s, when former Minister Chevènement announced the target that 80 per cent of an age-matched cohort class should sit the *baccalauréat*. This is on the way to becoming reality (34 per cent in 1980, almost 70 per cent in 2000). These tremendous pressures have produced many new sources of stress within the education service. The outbreaks of spontaneous protest movements – such as that of school pupils in 1998 – are indicative of the strains of reconciling a democratization of educational choice with a preservation of standards. Actors in the French system have expressed satisfaction about how much change has been managed without a fundamental overhaul of the education system.

Some observers argue that the effect of incremental reforms and regulations since the early 1980s has been to create a French-style new public management (Demaillay 1993). In the past decade, the Education Ministry has been amongst the most innovative in experimenting with various new management techniques, such as management by objectives ('projets de services') and financial decentralization ('globalization'). It has contributed to the effort to modernize the public sector through adopting new procedures of evaluation and contractualization. It has adapted its structures to meet changing policy challenges and reformed its central administration. One of Allègre's first acts as minister was to engage in a fundamental reorganization of the central administration, with the minister abolishing or merging eight central divisions. Allègre also engaged in ambitious attempts to introduce more flexible labour practices, to decentralize staff movement and transfers and to devolve more responsibilities to lower echelons of the Education Ministry.

Whether this adds up to UK-style new public management is unclear. We can illustrate the reality and the limits of organizational change by considering three characteristic features of new public management: governance by agencies, evaluation and contractualization.

The French administrative tradition insists upon clear lines of bureaucratic control and procedural conformity. It is also permeated by a strong loyalty to the corps that defines group identity within the French civil service. Attempts to hive-off ministerial functions to Gallic equivalents of next

steps or quasi-autonomous agencies fall foul of the corporate identity of the main actors (especially teachers and school inspectors) in the French education system. The Education Ministry has delegated some minor functions to agencies created specifically for this purpose. Such was the case for EDUFRANCE, created as a separate agency in November 1998 to export French knowledge and attract foreign students to France. But such cases are relatively rare and do not concern the core functions of the Education Ministry. Former minister Allègre floated more radical proposals, namely the creation of separate agencies to deal with competitive civil service examinations, staff recruitment, school examinations and academic inspection. In this area as in others, Allègre was singularly unsuccessful in achieving his objectives. The mainstream view remains that agencies are synonymous with a privatization of educational management. They are also an affront to the corporate identity of the French civil service and a threat to the equality and neutrality of the state. Even agencies such as EDUFRANCE are staffed by permanent civil servants rather than by business people as in the UK agencies. They are subject to overall ministerial oversight, rather than acting virtually autonomously as in the UK case.

The discourse of evaluation has made great strides in French education (Fixari and Kletz 1996). This can be observed both at the level of the academies (i.e. the regional sub-divisions of the Education Ministry) and the schools themselves. One idea circulating within the ministry is that the national inspection corps (*Inspection Générale – IGEN*) should evaluate the performance of the academies on the basis of agreed two- or three-year projects. Former minister Allègre wanted to push the IGEN one step further, in the direction of evaluating school performance, somewhat along the lines of OFSTED in the UK. This proposal met with determined resistance from within the IGEN and elsewhere within the education policy community. The lessons drawn from the English experience were essentially negative lessons. OFSTED was considered within the inspection corps as a model to be avoided at all costs, with ideas of competitive bidding offensive to the corporate identity of the French inspectors. At the level of the schools, there has been an increasing use of institutional audits. Since 1995, the Education Ministry has published league tables of school performance, classifying schools both in relation to their absolute and 'value-added' performance (Thélot 1994; Ganier 1999). But there is, as yet, no clear linkage between evaluating performance and the allocation of resources.

Along with the drive to administrative decentralization – which we consider below – contractualization was the centrepiece of Allègre's project of modernizing the Education Ministry. The emphasis on contracts forms part of the discourse of management by objectives that has penetrated the education policy community since the Jospin law of 1989 (Champagne *et al.* 1993). During the Allègre ministry (1997–2000) two specific types of contract were tried: those agreed between the ministry and the regional field services of the Education Ministry; and those – limited to four pilot regions –

concluded between the academies and individual schools. These public sector 'contracts' are consistent with the main traits of French-style governance. They are not legally enforceable contracts. They are more akin to mission statements, setting out aims, objectives and means to achieve objectives, rather than mutually binding pledges. Unlike the State-Region planning contracts, moreover, education contracts were concluded between different actors within the Education Ministry; they did not extend to external partners, such as elected regions or parents.

In the 1999–2000 round of negotiations, the 24 academies of mainland France differed markedly in their approach to the contracts. In the minister's circular of January 1999, it was stressed that teams should focus on their aims and objectives, and how to achieve these, rather than formulating demands for new resources (National Education Ministry 1999). As the round progressed, Education Ministry officials complained that most academies viewed the contractual process from a traditional resource-based perspective. They drafted documents that called for more teaching posts, rather than specifying policy choices or innovative pedagogical approaches. For their part, certain participants from the academies dismissed contractualization as a distraction of marginal importance, compared with the principal business of the regional field services, namely staff management, examinations and the burning issue of security in schools. In some instances, the contracts produced more resources. The Lille Academy lost fewer posts than it would otherwise have done, on account of the priorities outlined in its project and its participation as one of four pilot academies. In most instances, contractualization was resource neutral.

Whatever their limitations, these contractual procedures represented organizational innovation in the context of the Education Ministry. For the first time, the academies were called upon to define their own pluriannual objectives, to set out a method for achieving these and to allocate resources for implementing goals from increasingly decentralized ('global') budgets. Within the financial limits imposed by the ministry, the academies are free to make policy choices, and to adapt their provision to specific regional needs. By signing the Academic Contracts, ministry officials and teams from the academies commit themselves to pursue agreed objectives (and items of expenditure) for periods of up to five years. In the minds of civil service modernizers, these contracts represented a determined effort to move away from traditional hierarchical forms and to innovate on the basis of new public management techniques. We will present our own appreciation in the concluding section.

'COMPETITIVE INTERDEPENDENCY' AND MESO-LEVEL CHANGE

The regulatory framework of school governance in France has undergone important changes. At the territorial level, successive measures of administrative decentralization since the 1960s have strengthened the regional level field services of the Education Ministry (the rectorates) while the decentral-

ization reforms of 1983 and 1985 gave local and regional authorities important new responsibilities in secondary education (Cole 1997). These parallel movements of administrative and political decentralization are central to understanding the new policy dynamics of educational governance. The case for the emergence of a French-style educational governance would point not only to organizational change, but also to enhanced political and administrative decentralization, to the growth of educational partnerships and to the circulation of new policy ideas. In the ensuing section, we consider first meso-level change within the Education Ministry, before, second, situating this in a broader environmental context.

The image of a top-heavy Education Ministry is slightly misleading. A great deal of administrative decentralization ('*déconcentration*') has already taken place, and over the past four decades the regional level field services – the rectorates – have gradually emerged as powerful organizations in their own right. There have been three main waves of administrative decentralization in the National Education Ministry: 1962–64; 1985–88; 1998–99. This has been an incremental, largely apolitical process. The first moves to administrative decentralization, in the 1960s, preceded those of political decentralization. Internal bureaucratic rivalries within the French state explained these measures. The Education Ministry delegated more responsibilities to its regional field services (the rectorates) in order to stand up to the new regional prefectures (created in 1964), as well as responding more efficiently to regional variations in educational needs. Later moves – those of the 1980s – corresponded more closely with political decentralization. The Education Ministry aimed to make the rectorates strong enough to deal with the recently empowered local and regional authorities and to prevent the latter from usurping state prerogatives in education. This was a good case of administrative decentralization being designed to strengthen the state by equipping the Education Ministry with the means to preserve its pre-eminence in formulating and implementing meso-level education policy.

A third movement of administrative decentralization was undertaken during the period of the Allègre ministry (1997–2000). At the core of the French education system lies the teaching profession as a branch of the French civil service. Teachers' careers are directly managed by the Education Ministry (in Paris and the regions), with career advancement accorded on the basis of points, mainly accrued on the basis of family situation and experience rather than performance. A teacher often starts their career in a deprived inner-city school, before being transferred after several years to a more prosperous school, sometimes in a different part of the country. Until 1999, all teacher movements were directly managed by a bureau of the Education Ministry and a joint union-official committee in Paris. Even routine career moves to the neighbouring town were decided centrally, creating a permanent administrative backlog. This 'national movement' was valued by the main teachers' union, the SNES, since the

union dominates the ministerial committee that decides staff transfers. After a showdown with the teaching unions, Allègre managed to breach the principle of the national movement of teachers. Since September 1999, staff transfers between schools within the regions (but not between them) have been dealt with at the level of the academy itself. As Allègre promised, it is no longer necessary to go via Paris to move from Valenciennes to Hazebroeuck in the Lille academy. Transfers between academies remain the prerogative of the central ministry. This minor breach in the principle of a national education system provoked stiff opposition from the teaching unions. Any further decentralization of staff management, they argued, would threaten conditions of service, teachers' security of tenure and academic freedom. Again, the English model of the local management of schools served as a negative example for French teachers.

The cumulative effect of these incremental measures of financial and administrative decentralization has been to modify the image of a top-heavy administration. As a result of the contractualization procedure referred to above, the burden is placed upon the academies to define their own regional educational priorities, which, while respecting national criteria, allow for significant regional variation and initiative. Measures of financial 'globalization' have accompanied the gradual move to administrative decentralization; an increasing proportion of the budgets allocated to the academies is not tied to specific items (such as salaries) but can be distributed by the rector. As financial cost centres (*ordonnateurs principaux*), the rectorates are responsible for managing their expenditure, though subject to accounting controls by the field service of the Finance Ministry (*Trésorier-payeur général* – TPG). As a result of these movements, the rectorates have become genuine sub-national actors. They determine the distribution of academic streams and subjects between the various schools they administer. They define regional teaching and learning priorities. They now control most aspects of staff management. They are also charged with control over school inspections. To some extent, their influence is based on the extent to which they can agree with the elected regions, which have become important new players in French educational policy-making.

Political decentralization

What has gradually emerged as a French-style educational governance was given a major boost by the decentralization reforms of the early 1980s. The pressures for some decentralization in the sphere of secondary education were overwhelming. The familiar arguments of proximity, of adaptation to local needs and of local participation were raised in education as in other policy fields (Marcou 1992). The policy-makers of the early 1980s believed that the quality of educational services could be improved through increased school autonomy, and the involvement of the meso-level local authorities (the 96 departmental and 22 regional councils) in educational planning. The involvement of locally elected councils in planning infra-

structure (buildings and equipment) and making educational forecasts would alleviate the burden on the overloaded central state. Local and regional authorities would contribute to financing the efforts of national education policies. The commitment made in the mid-1980s that 80 per cent of an age-matched cohort should achieve the *baccalauréat* required a large-scale expansion in the number of *lycées*; the new regional authorities would finance this expansion. Educational reforms (in 1983, 1985, 1989 and 1999) also attempted to open up schools to their external environment, notably through the creation of school projects (*projets d'établissement*), new teaching methods (team and tutorial teaching) and the involvement of parents, local authorities and local businesses on the governing boards of schools.

In the education decentralization laws of 1983 and 1985, local and regional authorities were given several narrowly defined functions: new building operations, extensions and renovations to existing buildings, the supply of material equipment, provision for the daily functioning of schools and the – contested – right to produce educational forecasts. Within these narrow limits, the regions have responsibility for the *lycées* (upper secondary schools) and the departmental councils for the *collèges* (lower secondary schools). Maternity and primary schools are administered, as before, by the 36500 communes. This division of responsibilities was based on the idea that the state could abandon its secondary functions (buildings and equipment) without losing control over the education system. Control over core functions (staff movement between academies, overall pedagogical orientation, and the distribution of financial resources to the academies) remains determined at the central level (Fialaire 1992; Cole 1997). But there have been certain unintended consequences of educational decentralization. Above all, the emergence of new educational actors has given rise to more interdependent, networked and contractual policy processes at the regional level.

The relationship between the main sub-national actors in French secondary education is best described as one of competitive interdependency. In spite of embedded institutional rivalries, actors are bound to each other by a tight pattern of resource dependencies and, in most cases, by a shared commitment to raising educational standards. The main actors identified in fieldwork in two academies (Lille and Rennes) were the rector, the prominent regional politician (either the president of the regional council, or the regional politician in charge of the education dossier), and their respective officials. To some extent, the regional prefect performed an arbitrating role between the rector and the principal regional politician. In the words of one interviewee 'without cooperation from all sides, one could well imagine a complete blockage of the system'. A regional council might decide to build a school, but the implementation of this decision depends upon the rector agreeing to provide the teaching posts, and the regional prefect consenting to place the proposed school on the 'Annual List of Operations', the financial probity of which is controlled by the field office

of the Finance Ministry. The rectorates determine teaching needs, but in practice they depend upon the co-operation of the regions to build schools and finance equipment. Though the 1983 and 1985 laws confirmed the prerogatives of the French state in matters of pedagogical definition (academic orientation, teaching posts and examinations), the regions themselves were given the right to make educational forecasts (*schéma régional des formations*) and to produce regional investment plans (*plan prévisionnel d'investissements*). The smooth functioning of the system necessitates the co-operation of the state, the regions and – increasingly – the professional branches. In most circumstances, it is in the narrow organizational interests of each partner to co-operate, quite apart from there often being a statutory duty to do so.

We identified contractualization as a defining feature of French-style governance. Contracts are not limited to vertical channels within the Education Ministry. The procedure known as the contract of objectives, introduced in the 1993 Training Act, was a centrally inspired attempt to involve business more closely in the definition of its training objectives. Contracts are signed between the state, the region and a particular profession, with each party agreeing to specific commitments, financial or otherwise. A training contract will typically include the regional council, the rectorate, the regional prefecture, a professional federation and other training agencies. Other education-related contractual processes include the U3M scheme, whereby French regions and other local authorities are invited to contribute financially to the building of a new generation of universities.

There is much evidence of meso-level change, embodied in a more networked policy style. Rather than insisting upon uniform solutions across the national territory, political and administrative decentralization has encouraged regional differentiation, producing genuine negotiations within a regional policy space between the Education Ministry, the elected regions and – to an extent – the social partners. In completing our multi-level analysis, we will now consider whether these macro- and meso-level changes have made any difference to the daily management of schools.

MICRO-LEVEL CHANGE?

Though central controls have been progressively lightened by administrative and political decentralization since the 1960s, a strong case can be made that the effects have been minimal on the management of schools themselves. The degree of central regulation of school management remains high. French teachers are civil servants who are allocated to schools from a national pool. Educational mobility is determined at the national (and now, to some extent, the regional) level. School Heads have little control over their staff, whose performance is evaluated (periodically) by subject-based inspectors. As academic advancement depends mainly upon seniority – and falls completely outside of the sphere of competence of the school Head – there is little material incentive for individual teachers to invest

their energies in the collective school environment. Indeed, there is deep suspicion of school autonomy on behalf of many schoolteachers (and their unions) who insist on respect for national rules and regulations over and above local initiatives. Embedding the school in local communities runs against the republican ethos of the school as a neutral site whose purpose is to instruct in the values of the Republic. Secondary school teachers are primarily loyal to an academic discipline, rather than to an institution; their high sense of corporate, discipline-based identity also explains the deep reluctance of many teachers to engage in non-teaching activities.

Even at the micro-level, however, the direction of change is towards greater school autonomy. A series of incremental changes in the governing of French secondary schools (*lycées* and *collèges*) since 1975 have produced rather stronger school Heads, slightly more influential governing boards, and some budgetary autonomy. The creation of schools as Public Establishments (*Établissements publics locaux d'Enseignement* – EPLE) in 1985 was a highly significant benchmark. Public Establishments are bodies with their own character as autonomous entities in French public law. They are self-managing in areas not specifically proscribed by ministerial regulations. School plans, for example, are accepted or rejected by the school board. School Heads now have enhanced resources at their disposal. Through the overall teaching total (*dotation horaire globale*), school boards are able to apportion 10 to 20 per cent of school budgets to non-core curriculum activities; this gives them some leeway over what is taught in schools, as well as the balance between teaching and non-core activities. The obligation (under the 1989 Act) upon schools to produce a school plan (*projet d'établissement*) can enhance school autonomy in various ways – and not necessarily in ways imagined by the law-makers. Ambitious heads use school plans to promote rare or elite subjects (such as ancient languages) in order to attract the best pupils from beyond the normal geographical catchment area. Pressures for increased evaluation and for rigorous performance indicators have grown as schools have begun to make use of their greater autonomy that their status as Public Establishments implies.

The governance of French schools is mediated by several intervening variables of which the local environment, parental strategies and the dynamics of the school organization itself are the most important. As demonstrated by Vasconcellos (1993), local influences have always mattered in French education. The opening or closing of classes has been subject to fierce local pressures. Local actors lobby hard to secure new schools or prevent school closures. Through the mediation of local actors (especially mayors, firms, churches and voluntary associations), the types of local educational supply have been adapted to the characteristics of the local economy and cultural environment (Zay 1994). Parental strategies also have a major impact on local educational supply and demand. Fee-paying 'contracted-in' (mainly Catholic) schools have proved highly popular, accounting for the education of one-quarter of French school-age pupils. Even if

these schools have to conform with national educational policy (and the national curriculum), they provide an element of parental choice allowing families to escape the narrow geographical catchment area of state schools. The attempt by the Socialist government of 1981–86 to incorporate private schools into the national education system produced a fierce and successful mobilization on their behalf by parents and Catholic associations. Parental influence also matters in less obvious ways. Tailoring the school curriculum to appeal to middle-class parents (for instance, by offering difficult ancient or modern languages) can be a powerful means of indirectly increasing financial resources by attracting a prosperous social clientele.

The dynamics of a particular school also matter. In our investigations into the management of six secondary schools in 1994–95 and three in 2000, we uncovered several distinctive styles of school management, which were influenced by the size of the school, the social attributes of its pupils, the personal and professional characteristics of the main actors involved and the parental environment. Two obviously contrasting models were provided by a small (800 pupils) inner-city *lycée* in an affluent quarter and a large (3000 pupils) technical secondary school (*lycée professionnel*) in an unfashionable suburb, both in Lille. In the first school, the chair of the board and the head formed a cohesive leadership team whose authority was respected by teachers, pupils and parents. In the larger technical school, relations were far more strained. The Head was contested by the teaching unions who organized openly at the level of the school. He was also criticized by parent representatives and, by his own admission, did not always succeed in pushing projects through the school board. Between these two extremes, we noted widely varying styles of school management. Assessing the influence of individual schools within regional education policy communities is ultimately a behavioural exercise. The head of a prestigious wealthy school will usually wield more influence than the head of a run-down, underperforming one. Fieldwork uncovered clear evidence that education officials cultivated their own networks of preferred school heads and accorded less privileged access to others.

There is no equivalent at the micro-level in France of the English model of local management of schools with its pupil-weighted formula funding, and the delegation of the main budget and staffing decisions to school governors. For all their theoretical autonomy, the legal powers of French school boards are far more circumscribed than those of their English counterparts. They have no control over issues of staff management (the responsibility of the academic authorities) and only limited financial autonomy.

THE NEW GOVERNANCE OF FRENCH EDUCATION?

Its French critics regret that governance is neither new nor neutral (Gaudin 1998, 1999). They criticize the implicit neo-liberal economic preferences and the normative ('better governance') assumptions that underpin much of the literature on governance (Merrien 1997). The classic public administration

approach prefers the problematic of the reform and modernization of the state (Sadran 1992) to the 'hollowed out' minimal state solutions underpinning the governance paradigm. To paraphrase, governance is value-laden. It is also unscientific. It extrapolates general rules from specific (Anglo-American) situations. When governance is equated with policy convergence, it draws quite inappropriate conclusions which ignore specific contextual conditions, and the differential institutional capacity of state actors in countries as varied as the UK, France and the US. Governance is less appropriate for the countries of continental Europe, with their stronger state traditions and far less pronounced market preferences, than it is for England.

'English' governance does not export itself easily across the channel. Key features of new public management are alien to the French context. There are no powerful agencies such as OFSTED that in practice operate independently from the Education Ministry. There has been no real equivalent to the radical reforms of the English education system in the late 1980s that produced local management of schools, open enrolment and a growing private penetration of the public education service. The French state remains the principal player in French education policy-making. Even in its decentralized version at the level of the academies, the Education Ministry is a vast bureaucratic structure that controls far more resources than any other. At the level of the school – where policy choices really do make a difference in England – there are very strong limits to school autonomy. School heads or boards do not recruit teachers; and the teaching profession continues to exercise a large measure of self-regulation.

There are other problems with governance in the specific case of French education. The French state consists not merely of a set of institutions, but also represents a core of beliefs and interests. Habits of centralized thinking remain very strong. National education traditions underpin norms and rules, as well as remaining deeply embedded in the consciousness and the behaviour of the actors. Powerful trade unions and civil service corps form a coalition to bar the route to most English-style developments. Business actors are marginal to French secondary education (as opposed to training), though their role has been overplayed in the British case also.

Even harsh critics concur that the problems (if not the solutions) uncovered by British governance theorists are of cross-national relevance. They include the sheer complexity of the modern world; the diminishing capacity of the central state to manage policy alone; the crisis of legitimacy in European welfare states; the pressure to reform traditional methods of public sector management; the emergence of new policy actors and novel forms of interdependent relationships.

Following Rhodes and Stoker, we identified above several core features of endogenous governance: the blurring of public-private boundaries, the emergence of new policy actors creating more interdependent relationships, a networked policy style, new forms of policy learning and management

change. Of these various criteria, only the first appears inappropriate for the case of French education. Though the private management of public goods is an important feature of urban governance in France (Cole 1999), it is difficult to identify private actors at work in the sphere of education, the core of state sovereignty. Contracted-in schools run by the Catholic Church provide genuine choice, but they must conform to strict central regulation. In other respects, we can make a good case for the emergence of a French-style governance even in education. There has been much change in French secondary education, especially since the mid-1980s. New actors have emerged; new management practices have been introduced; new types of horizontal and vertical relationships have evolved, and new ideas have circulated. The pattern of centralization has been modified and the traditional form of neo-corporatism has weakened somewhat. The organizational changes uncovered within the French Education Ministry are indicative of a more diffuse French-style governance, characterized by the rise of contractual relationships, the growth of partnerships, the embedding of political and administrative decentralization and the slow penetration of new organizational ideas (see Cole and John 2001). These changes can also be observed in comparable areas such as health management (Griggs 2000; Hassenteufel 2001), urban policy (Le Galès 1995) and training policy (Michel 1992).

There is also some evidence of conscious reflexivity. Modernizing officials in the Education Ministry engage in deep reflection on the nature of the policy challenges facing French society and the ministry's capacity to learn from past experience (as well as from foreign countries) in order to improve service delivery. As with any bureaucratic structure, the Education Ministry has varied interests within its midst.

Our research led us to identify two principal ideological coalitions that crosscut formal institutional positions. There was a strong coalition favouring organizational modernity. Its exponents could be found in the modernizing sectors of the central administration, with support from many school heads, certain trade unionists and the two parents' associations (FCPE, PEEP). While firmly wedded to the idea of education as a public service (rejecting openly neo-liberal solutions in vogue in Britain), the modernizing coalition was willing to embrace innovations in educational practice and was open to practices of evaluation and new management techniques. This was opposed by a traditionalist coalition that equated innovation with an attack on the public service ethos of education. The traditional viewpoint was strongest among the majority of teachers, most teaching unions (especially the SNES), and the traditional inspectors. It had strong political support from within the ruling Socialist Party (PS). These actors were profoundly sceptical about change. They advocated the autonomy of the teaching profession and adopted a traditional view of the role of the teacher as a transmitter of knowledge. This coalition was hostile to cross-disciplinary teaching and suspicious of new teaching methods, such

as tutorials and small group teaching. Above all, this group feared school autonomy and local influence, both of which would be detrimental to an idealized vision of uniformity within the education system.

Governance does not signify convergence. Similar policy problems can produce non-convergent policy and institutional responses. Policy responses are not identical in the UK and France. They are in the main contextually specific responses to rather similar policy challenges. In both countries, governance represents a new form of 'steering at a distance'. In the English case, micro-level (school) decentralization was an effective parsimonious strategy by the central state to bypass locally elected authorities, to enforce curriculum change and to exercise a distant but directive control on educational outcomes. In France, the strengthening of regional-level capacity does not necessarily equate with autonomy. Administrative (and even political) decentralization can in some respects be interpreted as a means of strengthening the state. Contracts and projects arguably invest policy actors with a greater sense of responsibility and ownership; they are also a means of 'steering at a distance'. The objectives of the centre are implemented by lower echelons of the same bureaucratic structure which, at the end of the day, are required to fall in line. As the head of the ministry's schools division admitted, the contracts being negotiated between the centre and the academies were 'not really contracts at all', in that the ministry would insist on having the final say. This represented a frank admission of a bureau-shaping motivation; strategic control could best be exercised by decentralizing responsibilities and functions to lower echelons. In the French case, however, the desire to 'steer at a distance' is often contradicted by the pressure of social movements. There is somewhat of a contradiction between the drive for greater political and administrative decentralization, on the one hand, and the social demand for education as a public service on the other, which – by stressing equality of opportunity – continually re-centralizes the issues, as only the state is accepted as a neutral arbiter.

Herein lies the importance of historical and institutional traditions in framing the available pathways of governance. As presented in this article, French-style governance operates within distinctive ideational and institutional environments and interest structures. The French educational context is framed by a powerful state tradition, a specific referential frame and an enduring neo-corporatist management style, the combined effect of which is to bar the route to English-style governance. Within these constraints, we can identify nationally distinctive features of governance. The diminishing capacity of the central state as an educational policy actor contributed both to internal changes within the Education Ministry from the 1960s and the institutional reforms of the early 1980s. As in other policy domains, educational governance in France displays polyarchical and centripetal tendencies. Institutional fragmentation has created its own antibody in the form of the development of networks and partnerships in an effort to enhance meso-level governing capacity. Like its English counterpart,

French-style governance is thus a product of organizational overload, the growing complexity and indeterminacy of policy solutions, the emergence of new resource interdependencies and the need to experiment with managerial innovations. In France, as in the UK, fragmentation has increased pressures for coalition formation to implement policy. Policy actors are dependent on each other; they need to pool resources (knowledge, finance) to resolve complex, dynamic and diversified problems. As the elected regions have become more experienced policy actors, new forms of policy learning have emerged, based on a common vision between regional actors and regional state officials together with a large measure of shared technical expertise.

In the case of French education, change is historically and institutionally contingent, if not strictly path dependent. Changes are interpreted and managed in ways that are consistent with national traditions. We should recall that central state supervision of primary and secondary education formed part of the Republican synthesis upon which the modern French state was erected. The ideology of public service and equality of opportunity in education provides a strong point of reference for most French. This keeps education at the top of the policy agenda, but it contains within it the germs of future conflicts, as it becomes increasingly difficult to reconcile the democratization of educational choice with a preservation of educational standards. The system has adapted to changes in manners indicated throughout the article, but it would be difficult to imagine a complete *tabula rasa* in this sphere where norms, beliefs, and institutions converge to provide a nationally specific pattern of educational management.

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PUBLIC MANAGEMENT

THE CIVIL SERVICE UNDER STRESS: THE FALL IN CIVIL SERVICE POWER AND AUTHORITY

C. D. FOSTER

The failures of governments of both parties in the 1970s had prepared for radical changes in the nature of government under Margaret Thatcher. Among them were that ministers resumed greater power over their civil servants. While various aspects of the relationship between ministers and officials changed and despite the introduction of special advisers, close partnership – the Haldane relationship – was largely retained between them until the end of the 1980s. In the 1990s ministers began to operate less closely with the civil service, largely because they found they had less time for departmental work under the Major and the first Blair administrations. Many of the skills for which civil servants had been trained became less in demand because of the ending of the Cabinet style of government, the reduced importance of ministers appearing before parliament and the greater involvement of spin doctors and media handlers in preparing public documents. However, new skills were required: more rapid accessing of information and more skill in implementation and responsibility for it. The Wilson reforms of 1999 were in large part aimed to remedy these shortcomings. There remains a question whether enough of the Haldane relationship survives for government not to be driven towards greater definition of the rules in which civil servants operate.

INTRODUCTION

The traditional close relations between ministers and their civil servants derived in their essence from the Haldane Report of 1918 (Haldane 1918), though their origins were much earlier (Foster 2001).

Sir Christopher Foster was formerly a partner of Pricewaterhouse Coopers and Special Adviser and Chief Economist to Barbara Castle in the 1960s, to Tony Crosland at DOE in the 1970s and a non-political Special Adviser to John MacGregor in the early 1990s. He also worked extensively in government as an economic economist in the 1950s, 1960s and 1970s and as a consultant in the 1980s and 1990s.

Instead of the 'separation' of functions, between temporary politicians responsible for politics and policymaking, and permanent administrators responsible for administration and implementation, Haldane required 'fusion' of their functions, that is, partnership (Thomas 1978, pp. 337–412). His ideal was an ever-present indissoluble symbiosis between minister and civil servants so that they were almost one person, a less mystical forerunner remaining the closeness expected between a wise monarch and his trusted counsellors. In 1988, a permanent secretary, Sir Brian Cubbon, described his role, mathematically rather than mystically, as 'the reciprocal' of the minister (Hennessy 1989, p. 508). Legally this relationship of partnership was known as the Carltona principle (Daintith and Page 1999; Wade and Forsyth 1994, pp. 358–9). In a discussion of the legitimacy of civil servants taking decisions for ministers, the courts upheld the old notion that ministers could not delegate their powers. Rather it was the same thought as underlay Haldane's notion and Cubbon's expression of it that ministers and their civil servants were, if not one legal person, then an organic unity for purposes of ministerial decision-making (Freedland 1995 and 1996). The presumption was that civil servants were close enough to ministers to know their minds so well that they would take the same decisions ministers would take, given the law and the state of government policy on the matter (Gordon Walker 1970; Brown and Steel 1979, p. 129).

The constitutional implications of Haldane were plain. Civil servants had a duty to provide advice – *intelligence* and *thought* – or in more modern words, recommendations between options, based on information and analysis. They were also expected to advise ministers on aspects of the legitimacy of what they did: on what was lawful, to whom in addition to parliament some account was due, who had power it would be unwise to ignore, who else should be consulted, what evidence was needed and what options considered given the pressures of other work and the time available. The criteria, though informal, were similar to more formal legal criteria for legitimacy in decision-making (Baldwin 1995, pp. 33–57; see also Foster 2000a) But the decision on what to do remained the minister's or the Cabinet's depending on its importance. To enhance that advice, civil servants had to be independent of mind and of political party, a position reinforced, by the doctrines of collective and ministerial responsibility (Foster 2000b) by such devices as their appointment by competitive examination, their tenure based on a pensionable career, and by ministers having limited power over their posting and promotion and, for many years, by most of a department being insulated from ministers by a handful of officials.

As long as that independence and the close Haldane relationship broadly corresponded to reality, neither a statute nor Wilsonian regulations were needed to define relations between ministers and civil servants, with the qualification that neither was above the law, so providing a point of entry

for judicial review of their decisions, something that has been rare until recent years.

This contrasts with rule-bound relations between elected ministers or executives and their civil servants. For example, contrast Haldane with Woodrow Wilson, the professor of politics who became US president. As he expressed it – and it became the basis of US practice – once laws were made, politicians should tie the bureaucracy down to the greatest extent possible by rules to constrain their administrative and executive actions, and they should be published – as indeed they are in the USA – running annually into thousands of pages (Wilson 1887, pp. 213–4). In practice, because the White House never has time to devise the rules, each part of the federal bureaucracy does so for itself. While these rules may then be challenged by politicians, political accountability in the United States by contrast is multiple, incoherent and ineffective (Campbell and Wilson 1995, pp. 251–2). In the US, effective accountability for these rules is to the courts (as in continental Europe accountability for their equivalents is often to institutions of administrative law). It contrasts with the formal political accountability based on the royal prerogative of all parts of the British executive through ministers to parliament (which is now, though not, formally, at least, equally ineffective, multiple and incoherent – Foster 2000b).

THE 1970s

At the start of the 1970s the relationship between ministers and civil servants remained one of fusion, but officials had the greater power, as Weber had argued they would (Weber 1918) principally because of their permanence by contrast with ministers' transitoriness (Drewry and Butcher 1988, p. 156) and their lack of relevant experience, generally more so in the UK than elsewhere. As long as budgets and civil service manpower grew in real terms, as they did until the end of the 1970s, the hypothesis could be maintained that civil servants realized their power through the maximization of their budgets (Niskanen 1971, pp. 21–2, 38; 1973) and personnel (Tullock 1976).

However the effectiveness of the 1970s improvements in civil service working and organization following the Fulton Report was more than offset by the severity of the nation's economic and other problems with which the Cabinet system had to contend and which created serious overload as well as by an increasing need for interdepartmental working to which the system was less suited. Entry to Europe caused an increase in ministers' and officials' activity far removed from their traditional ways of working. The 1970s had shown that the practice of collective government through Cabinet was no longer a viable or even tolerable form of government but had not indicated a successor (Foster 1999b; see also Kavanagh and Seldon 1999, p. 286). At the same time, government of both parties attempted to lessen official supremacy. The CPRS was one attempt. Special advisers were another. While most special advisers of the 1960s had been brought in

because of academic or similar knowledge, most of their successors in the 1970s were primarily political aides. Manifesto commitments began to be given a special status protecting them from the threat of civil service negativism should it materialize. In the 1970s it became commoner for officials to withdraw from Cabinet to allow ministers to talk on their own, usually to discuss political questions, especially when there was acute political disagreement as over Europe or the economy in the 1970s (for example, Castle 1980, pp. 96–7, 112–3, 143, 347). There had been a few similar occasions in the 1960s and even earlier (Burgess 1999, pp. 285, 291; Crossman 1975, p. 317; 1976, p. 83; H. Wilson 1976, pp. 56–7; Morgan 1997, pp. 207, 212). Regular meetings of ministers on their own started, especially in the enlarged departments, beginning with the first to combine, Defence, under Healey in the 1960s, Peter Walker at DOE in the early 1970s, then Barbara Castle at DHSS who after 1974 met regularly with her ministers and special advisers without officials present to review the week's work, though the most senior officials joined them after lunch (Castle 1980, p. 59).

THE 1980s

But it was not until the end of the decade that relationships really altered. The system was jolted more than ever before in 1979 and at last reduced the power of the machine relative to other actors in policymaking. Margaret Thatcher, despairing of the cumbersome processes of the past, insisted on sticking to her policy agenda. Arguably she had to do this to meet the crises of the nation unresolved despite the efforts of both parties in the 1960s and 1970s. Her instinctive distrust of civil servants as a class, responsible for past failures and for an unworkable system, crystallized in the early retirement of the head of the civil service, the sidelining of the head of the Treasury and her personal interest in choosing the most senior civil servants (Campbell and Wilson 1995, pp. 64–6, 262–5; Smith 1999, p. 141; Dowding 1995, p. 124; HC 92, 1985–86, Vol. 1, 157; Vol. 2 Q 728, Lawson 1992, p. 267). They were signals asserting that the balance of power had at last swung back to ministers.

Suspicious of all professions, Thatcher's *conviction politics* meant that she and ministers who thought like her had less time for the old civil service traditions of deliberation and consultation, and then of testing and adjusting policies to achieve consensus. She saw them as often undermining the process of getting things done. As long ago as 1940, Oliver Lyttleton, a rare businessman who was also a successful minister, remarked on civil servants' tendency to assume ministers knew nothing about a subject; but their defence would have remained that, as in a court of law, ministers needed to review all the relevant evidence before they made up their minds (Chandos 1962, p. 202). From about 1983 consultation of outside interests often became perfunctory in a growing number of departments. Unthinkable a decade earlier, a senior minister (John MacGregor) told me it had not occurred to him to consider his civil servants better informed than min-

isters about what the various pressure groups and trade associations thought. The Man from Whitehall no longer knew most, let alone best (Campbell and Wilson 1995, pp. 50–3). Ministers listened when their policies were challenged in the traditional manner by civil servants but often seemed less responsive. Ministers found officials did not act as quickly as they wanted. To Heseltine, getting it right did not matter as much as getting something half right quickly, altering it later if necessary. Waiting to be right could be too slow for anything to happen; but there was a price for failing to be thorough which was paid most obviously in the debacle of the Poll Tax. Later in the decade, new ideas on GP fundholders and cross-district referrals simply did not work because not enough attention had been given to making them practical. The nadir of ill-considered legislation came in statutes restraining dangerous dogs and establishing the Child Support Agency. With many ministers indifferent to statistics, research and analysis, and eager for cost savings, many professional sources of expert advice in Whitehall were run down. The consequence was that what civil servants had to say on policy frequently seemed not well based on evidence and helped them less in standing up to conviction politics. Another invisible factor in the decline of civil service robustness before ministers was the frequent deterioration of the departmental information bases which eroded the collective memory and undermined the assurance civil servants had that they could easily access virtually all the administrative precedents, the law, the latest interest-group opinions and other knowledge relevant to the area for which they were administratively responsible.

Despite Mrs Thatcher's personal reliance on some officials, the distrust lasted until a new, but still non-politicized, type of civil servant emerged at the top of departments, sometimes called a 'Can Do' type, but misleadingly, because there were many 'doers' in the past and both Peter Carey and Frank Cooper were such among those she inherited. J.D. Jones, later a permanent secretary, had been Macmillan's instrument in achieving a manifesto pledge to build 300 000 council houses. Another, David Serpell, had reformed the PESC system. There were many others. When Peter Middleton unexpectedly succeeded as head of the Treasury, he was described as a 'trouble-shooter' (Lawson 1992, pp. 268–9). She and 'dry' ministers like her wanted officials who were not deliberative, less likely to question policies, set out options, engage in lengthy processes of consultation or delay decisions by calling for statistics, analysis or research; but instead got on with putting policies into effect. Moreover, even the indefatigable Margaret Thatcher acknowledged to the Scott Inquiry that she could not read all the papers which came to her. Rather her civil servants read them for her (Campbell and Wilson 1995, p. 24).

The political advisers Mrs Thatcher brought in were reduced during the 1980s and were half the numbers of 1997. With few exceptions they were policy and media advisers and not expected themselves to implement policy. As a consequence she and her ministers came again to rely more on

civil servants than special advisers for getting things done and in doing so re-discovered the old Haldane close-working relationship as an effective way of working, especially in implementing policies but less so in policy initiation and testing. Nevertheless, many of the brightest and best left the service, discouraged by disparagement of the public sector and the lure of more money and challenge elsewhere.

Better management information (for example, through MINIS, begun in DOE, developed in MOD and then adapted for other departments) began to improve government working, but for several years it was also a mechanism for regaining trust between ministers and civil servants (Heseltine 1990, p. 207 and private information). Some civil servants, though, found it bureaucratic. Towards the end of the 1980s, management and structural reform within government as well as the reduction in senior civil service numbers, began to have an independent effect on the capacity of the central civil service (Foster and Plowden 1996, pp. 164–7). A source of strength to senior civil servants had been that at some stage in their careers they had run an executive activity. Such experience gave them the robustness to stand up – not always rightly – to various ministerial initiatives as impractical. It became progressively less common in the 1980s, as did outside experience.

Among the effects of these political and administrative changes were that Green, White and Consultation Papers were less informative and were sometimes more like PR documents. Consultative processes based on them became more superficial: ministers were not listening to the voices of experience. Poorer legislation resulted largely because ministers put less into it, and often delayed their input, so that there was even more of a scramble towards the end of preparing them than there used to be. All these developments meant fewer of the traditional civil service skills were called upon and those that were, because distanced from them, were often less noticed by ministers.

THE MAJOR ADMINISTRATION

The 1990s saw more changes, though it is a mistake to attribute them just to the change in prime ministers. Like the earlier changes, they took place at different times and at a different pace in different departments; but the absence of Margaret Thatcher's hard work and attention to detail, by which she had replaced the slow processes of the old Cabinet system, was part of it. In refitting it for herself she had unfitted it for less forceful administrations. As more agencies and other public bodies were created and hived off, there was what one political scientist has called a 'fragmentation' of government which made its activities harder to co-ordinate, let alone control (Rhodes 1997, p. 36).

Despite this being promised by John Major, there was no return to the Cabinet system as a rigorous, thorough but often time-consuming and sometimes unsuccessful method of policymaking, though Cabinet ministers

took part in more informal discussions of policy, often leaking against each other (Campbell and Wilson 1995, pp. 129–40). At the same time civil service reforms were accelerating. Reducing civil service numbers by 20–25 per cent diluted the quality of advice available to ministers and jeopardized the thoroughness with which initiatives could be implemented through de-layering which many civil servants thought beneficial in itself, though not the reduction of numbers involved. Sometimes White Papers and legislation were less informative, often because there was not enough time to hammer out issues or to allow clear conclusions to emerge in clear prose, especially where there was interdepartmental disagreement. Large numbers of agencies were created, most achieving more efficient management and customer satisfaction (Foster and Plowden 1996, pp. 147–67); but without enough thought for the political consequences (Pierre and Peters 2000, pp. 64–6). Relations between ministers, central departments and outlying agencies were weakened and were insufficiently reviewed.

At the same time, ministers, always overloaded in modern times, spent more time on the media, making speeches outside parliament to all sorts of bodies, receiving deputations often through Tory MPs and lobbyists, more time in the constituencies and on constituents' business and on departmental work, including the detail of legislation, so drawing less on the skills for which civil servants had been trained. Remarkable indeed was the increasing time MPs, including ministers, spent on constituency business: a survey showed it to average 35 hours a week (Power 1998). A senior minister told me he spent as much in his own 7-day week, but never less than 3 hours on weekdays – itself meaning a substantial reduction in time spent with officials which made maintaining the Haldane relationship more difficult. But what often began to take most ministerial time was, first, networking among MPs to prevent revolts threatening the Conservatives' slender majority and, second, trying to get ministers to agree policy given the deterioration of the role of Cabinet committees. Special advisers began to play a different role, oiling the wheels of government. The old methods of interdepartmental co-ordination, always in many respects slow and difficult, had become less effective and less often attempted. Ministers took to meeting in the House late at night and making decisions across departmental boundaries, often to avoid telling their officials the reasons for them: a practice which would catch up with them at the BSE enquiry (private information). Often they did not know what kind of meeting they were at. Frequently without officials, it often became harder to know what had been decided. The policy networks through which government operated had once shown considerable permanence and continuity (Marsh and Rhodes 1992, pp. 250–2) but now became larger, looser and variable in composition.

In 1992, after some months when the enormity of the changes had sunk in, minister–civil servant relations at the Department of Transport seemed in many respects transformed from what I remembered of the 1960s and 1970s. (I had returned as a non-political adviser on rail privatization.) It

was difficult to say whether officials were less able. In many ways many were more rapid and innovative than many of their predecessors but, reduced in number, they were working in more adverse circumstances, trying to co-ordinate larger, more diverse policy networks with less factual and intellectual support under greater pressures and with less respect instinctively shown them (as was true of similar influences affecting similar staff in the private sector). In the 1980s it was possible to believe the bureau-shaping hypothesis in as much as the civil service was shaping the reforms, on which ministers insisted, in ways which suited their working habits (Dunleavy 1991); but from around 1990 it no longer seemed plausible that civil servants had enough control to do this. Because of hard work by all concerned, by the time the Railways Bill reached the statute book we had a sound basis for policy and what appeared to be a workable act, but it was all more fraught and last-minute than the bill preparation I had experienced in the 1960s and 1970s (Foster in Freeman and Shaw 2000, pp. xi–xv). To test my perceptions, I looked around to see what was happening in other departments. There were variations; but as a generalization the old ways seemed least changed in departments such as the FCO, Defence, the Northern Ireland Office or in parts of the Home Office and Social Security where officials had a distinctive expertise. Most home departments had been substantially affected.

Among the changes, it seemed to me, were the following:

- ministers and their political advisers frequently met on their own inside and across departments. At the top of the agenda was the practice of reacting to the media or determining policy without enough thought about practicality which they thought impelled to do by the ever-growing intrusiveness of the media;
- a slackening of the effectiveness of these quicker methods of working when convictions about new policies were less firmly based on manifestos and there were more differences of opinion between senior ministers;
- greater reliance on outside opinion and analysis (Smith 1999, p. 126) of which some were objective and based on sound information and analysis but others were less so; nothing wrong with that but the role of civil servants, its specialists and technically qualified special advisers in appraising that evidence, and in offering policy advice of their own, declined;
- less systematic use of consultation processes to test outside opinion in development of policy and on how to implement it;
- because ministers and their political advisers spent more time on their own and out talking to outsiders without civil servants present, there was a partial breakdown of the Haldane relationship to the extent that civil servants were less able to act as gatekeepers protecting them from lobbyists and doubtful influences, though the occasions to which ministers succumbed to these last seem to have been extremely few;

- the civil service had largely lost control of ministerial diaries because of ministers' itch to respond to today's media, while openness to Tory MPs and lobbyists meant that the diary was altered daily with consequences for the diaries of most senior officials. Ministers often had to tell civil servants they had other more time-consuming responsibilities as well. Not that ministers should always fill their diaries according to civil service priorities; but one effect was that departments and ministers got through less departmental work, which in particular meant that bill preparation and drafting regulations were done less well;
- de-layering within departments had got rid of excessive tiers in the old hierarchies but, taken too far, it had two main adverse consequences. First, while no drawback to the many ministers in the Major administration who were self confident – Kenneth Clarke was an extreme – or not active enough to need much civil service advice, the resulting fall in civil service numbers was to cause severe problems in serving the highly active and deeply inexperienced Blair administration. Second, the senior Treasury official had one, or rather two, serious points about his juniors who told David Lipsey 'I know I'm not supposed to correct their English any more. But does this mean I am not supposed to correct their economics either?' (Lipsey 2000, p. 73). Because junior or senior officials were now encouraged to send their advice direct to ministers unchallenged by other civil servants, mistakes of fact and analysis were more likely to be made, so ultimately tending to undermine the civil service's reputation. Not correcting English was not a loss, but the loss of the far more important and once ingrained official habit of challenging exactly what every other official (and minister) meant by what they had written down, was;
- because they saw so much less of ministers who could spare less time to making decisions, civil servants were forced to take more decisions with less or no ministerial guidance. At the same time new legislation, Europe and centralization of decisions from local government, meant that more decisions had to be taken;
- moving senior civil servants onto contracts, though introduced (unnecessarily) to enable ministers to get rid of officials who they thought were not performing (as if this were impossible before) signalled a new relationship between them. The fact that a contract was a two-way relationship was something that appeared only slowly.

The weakening of Haldane paradoxically led to several attempts to clarify the nature of minister/civil service relationships in public service (Prime Minister November 1991, pp. 5–6; July 1994, paras 2.37, 4.16). Sir Robert Armstrong had said 'that for all practical purposes, the civil service as such has no constitutional responsibility separate from the duly elected government of the day' (Head of the Civil Service 25 February, 1985). Ironically, this was an attempt to stop demands that the principles under which civil

servants operate should be codified and even become statutory (private information). That would have entailed a substantial move in the Woodrow Wilson direction of supplementing parliamentary accountability by greater attention to the published rules within which they had discretion and by that means shifting greater accountability for them to the courts. While all senior civil servants believe their accountability for policies and decisions is to ministers alone, declaring this duty in these terms may have weakened the notion of a separate overriding duty, for example, to tell the truth to parliament if required not to (but not by leaking to the press), as well as being another affirmation of the effective, as opposed to the dignified, superiority of ministers over officials. Reaffirmation of rules could not compensate for the decline of shared values. At the same time the practice of permanent secretaries being able to write Accounting Officer minutes if they felt ministers had approved unlawful or otherwise not properly sanctioned expenditure – widened later to cover value for money – put ministerial/civil servants relations under strain (Foster and Plowden 1996, pp. 231–2; Daintith and Page 1999, pp. 128–9. Fifteen were written between 1979 and when their book went to press; but many more were written and negotiated with ministers rather than sent). As so often, the effectiveness of such arrangements depends on their not having to be used (especially as the Public Accounts Committee was reluctant to take effective action over such complaints against ministers).

SINCE MAY 1997: THE BLAIR ADMINISTRATION

Eighteen years of opposition meant that almost no minister in the first Blair government had senior ministerial experience and therefore none knew of the pleasures and pitfalls of minister-civil service relationships, though Gerald Kaufman did try to set them right (Kaufman 1980). Another edition of Kaufman's book came out just before the 1997 election, which misled new ministers since it had not been revised enough to reflect changes in the intervening years. More were influenced by Crossman's suspicion of civil servants and Benn's hostility than by the Castle diaries in which she was more even-handed, praising civil servants from time to time. (On the value of the partnership relation to senior ministers, see Campbell and Wilson 1995, pp. 29, 30; Lawson 1992, p. 589.) From these diaries they thought they had learned the need to put civil servants in their place if the policy intentions of the Labour Party were not to be frustrated. The TV programmes, 'Yes, Minister' had a similar effect. While enjoyed by previous ministers, they had not prevented the development of good working relationships. The initial edginess between ministers and civil servants had been greater in both the Wilson administrations and even more so in the Thatcher administration than previously, but the essence of the Haldane relationship was established fairly soon, particularly between ministers and their private offices. However, in 1997, fired by these influences, many ministers came in with a suspicion of departments as the enemy and of a civil service ready

to subvert their manifesto commitments and take them prisoner. In a very few cases even, civil servants were moved or retired because of association with past policies more by analogy with German or Swedish practice (Campbell and Wilson 1995, p. 19) than UK past practice. It was not accidental that the good relationship which developed most quickly was that between Jack Straw, his ministers and their civil servants, since he had been a political adviser to Barbara Castle and Peter Shore and knew the old relationships from experience as well as being himself married to a senior civil servant; but at the other extreme, one Cabinet minister rarely completed a significant discussion or reached a conclusion with his civil servants present (private information). They withdrew and he went over what they had said with his special advisers first.

After 18 years in opposition the new ministers had finally succeeded by winning the war of the press release. To do so, they had filled their diaries with the media, political networking, constituency work and other activities which they were not as ready or able to give up, four days a week, from nine to five, to departmental and other government business (Foster 2000a). Many senior civil servants found they again saw less of ministers than had been customary for those in their positions in the past though it varied greatly. As one interviewed official revealed soon after May 1997, 'At the moment it is difficult for us to pick up ministerial signals. Ministers talk among themselves and share more about themselves than they ever do with us. Traditionally, I will get to know what is going through a minister's mind by a whole series of meetings and discussions...' (Smith 1999, pp. 122-3). Initially the explanation given for this lack of professional intimacy was that after 18 years in opposition, new government was slow to stop behaving like opposition, but, when the behaviour persisted as it did in many cases, it had to be seen as no longer representing a Haldane partnership.

As ministers moved around so the relationships altered. In some departments minister/permanent secretary relationships were good, in others less so. Some teams of civil servants working on particular issues found themselves close to ministers as had their predecessors in similar teams under the Thatcher and Major administrations. A large volume of business was still, as it always had been, transacted on much the same old basis between junior ministers and middle ranking or relatively junior civil servants. However, relations tended to be closest to the old pattern in the departments already mentioned, where civil servants were thought to have particular specialized skills not readily found outside Whitehall, although Sir John Coles, after his retirement in 1997 as head of the Foreign Office, was to reflect on the acute difficulties of making policy when ministers simply did not have the time to give to it mainly because they had become so preoccupied by the immediate and the media (Coles 2000).

Though freed from the huge pressures on their time involved in appearing frequently in parliament or participating in the Cabinet system, many

ministers found that freed time absorbed by the media and by political work with other ministers, special advisers and lobbies. Over 18 years but especially in the last year or two, they had built up relations with lobbies and pressure groups in their subject areas to an extent far greater than had been normal with previous oppositions. Therefore many ministers and their advisers felt they did not need the civil service as much as their predecessors had done in order to link them into those networks.

As political scientists had observed (Marsh and Rhodes 1992; Pierre and Peters 2000) old hierarchies had been transmuted over recent years into more fluid policy networks involving people inside and outside a department. During the 1980s and early 1990s, outsiders became more common in such networks. Both in networks and in the older hierarchies it was impossible to say that power was concentrated with ministers or particular officials. Rather it was diffused, varying with people and circumstances (Smith 1999, pp. 110–30). What now changed in many departments was not that the civil service lost a monopoly of advising ministers (Campbell and Wilson 1995, pp. 10, 18), which it had done long ago, but that it no longer always retained the role of co-ordinating advice to ministers, that is, of giving the final advice based on all earlier advice. That role sometimes went to special advisers or to other non-ministers, such as chairpersons of task forces. In the initiation and detailing of policies, officials would frequently become not much more important than outside interests and lobbies and with no special gatekeeper function. Though practice varied between departments – in some it did not happen – it was so no longer unknown, though probably still rare, for ministers and special advisers not to consult the department before replying to a letter.

Because the civil service was no longer seen as the key repository of knowledge about the intentions and stratagems of the main lobbies and interest groups with which the department was concerned, it was therefore no longer the most effective means of communication with them. Under Major, such lobbies had come to operate on MPs and through them on ministers to a greater extent either directly or through professional lobbyists. Perhaps the main effect of recriminations against sleaze post-Nolan in the dying days of the Major administration had been to take MPs out of the loop, something reinforced by the influx of a mass of new MPs. Labour MPs, old and new, were disinclined to follow the previous government's MPs in this role, given the grief that a few of them had come to. Again there were departmental differences, but in many, the lobbies began to direct their attentions straight to ministers, their special advisers and in some circumstances to the many political appointees within government who were neither but who began to have substantial influence on the processes of government as chairpersons of task forces and similar bodies or as advisers.

The government, suspicious of a civil service which might undermine its proposals, did not welcome or want the time-honoured civil service role in

which it examined and challenged those proposals to point out the likely consequences (Campbell and Wilson 1995, pp. 23–4). The traditional full submission to a minister was not allowed, at least on a manifesto commitment (private information). One consequence was that some bills were introduced which were strictly unnecessary since the powers already existed (private information).

Ministers were not as interested in the detail of the legislation as they had been. When faced by delays and bill preparation, in part caused by their frequent but not invariable lack of interest in discussing their detail, especially when a knotty point was involved, they were ready to introduce incomplete bills into parliament, rather than lose their place in a formidable parliamentary timetable, and then make and accept copious amendments later. Consequently, they could lose the control of the content of legislation that their predecessors had had and had expected (Griffith 1985). When in 2000, defeats in the Lords produced a legislative log-jam which needed resolving by postponing some legislation, ministers were reluctant to use the Legislation Committee to sort out priorities. Neither would the prime minister do it for them. Seen as a problem of implementation, the expectation was that the civil service would take the initiative and interact with ministers to sort the problem out, at least in the first instance. Frequently ministers were less than approachable when officials went to them for guidance on the policy to adopt when making a class of decisions which were statutorily theirs. Quite often one heard of a refusal by officials to take on this responsibility, seeing it again as a problem of implementation. Sometimes the suggestion was that officials should use their own initiative provided they did not contradict the government's known policy which might be in manifesto or other fragmentary form; or to wait for an important case, if any, usually because publicly visible, which ministers would then decide.

Changes in policy became more difficult to effect since decisions after discussion in Cabinet or Cabinet Committee were usually no longer available. In the important cases, discussion with the prime minister – sometimes with the chancellor or another minister present – remained as the expression of the will of the cabinet system; but in many important instances it had to be effected through inter-ministerial correspondence which could be time consuming and chancy, given the lack of interest many ministers might reasonably have in each other's affairs. Often the prime minister's will on policy matters which he does not have the time to consider himself is ascertained through the appropriate member of the Policy Unit being asked if he thinks the prime minister would object. Similarly, other ministers' special advisers can play a similar role in canvassing whether their ministers would have an objection to a particular policy change. These developments are not totally new (Dunleavy and Rhodes 1990). The difference is that, except in departments already mentioned with specific and not easily matched expertise, most issues are settled after elaboration in policy networks in which prime minister, ministers and civil ser-

vants as well as outsiders have roles, but with very great varying weight given the parties. However, since 1997, even more than before, the civil service's role in co-ordinating these networks has in general declined.

The new government came in determined to return to the levels of effectiveness it saw the Thatcher administration had reached but to avoid the errors which in the end brought her down. Even less than under Thatcher, Cabinet was not to be a decision-making body nor to have a material role in discussing major issues. Symbolic of that intention was that Blair left his first Cabinet before its most serious agenda item – whether to go on with the Dome? – was discussed and then decided it should, even though the sense of the Cabinet discussion had been against. More than Thatcher, Blair relies on bi-laterals between himself and individual ministers to settle policy. Most standing and *ad hoc* Cabinet Committees met seldom (private information). When there was a difference of opinion between departments, ministers tended to avoid the confrontation they thought that reaching a compromise in Cabinet or Cabinet Committee would require. Many senior ministers did not like the activity of chairing Cabinet Committees or other meetings to settle disagreements and find compromises. (For similar reasons many ministers found it hard at the sharp end to engage with the preoccupations of parliamentary counsel.) The British cultural tradition of being open across a table about one's differences of opinion, then expecting to work openly together to reach consensus through compromise and, if that failed, yielding to the majority, was being replaced, as in business, by an American culture. Its detractors could call it hypocrisy: it was ultimately caused by the impermanence and insecurity of many modern business arrangements – in which one is always deferential at a board or committee and one avoids argument and confrontation. If one has an important difference of opinion, then one settles it privately one-to-one. This change of attitude made operating the Cabinet system in anything approaching its old form, almost impossible. Moreover, ministers tended to disregard as artificial the careful briefs that the Cabinet secretariat devised in time-honoured fashion to help them through to a conclusion. The most important issues were settled somehow, the least in correspondence, but there was difficulty in settling many interdepartmental issues of the second rank. This kind of difficulty was one, but only one and not the most important, reason why ministers sought more effective means of achieving 'joined-up' government, which led to the reforms suggested in *Wiring It Up* (Performance and Innovation Unit January 2000b).

Moreover, the doubling in number of special advisers, their enhanced position in government and the bringing in of many other outsiders into advisory positions complicated the process of policy-making and decision-making through making it necessary to consult more people. As time passed more pressure groups were brought into the net – particularly consumer and special interest groups – through the creation of task forces with varying authority given them by ministers. In some respects the conse-

quences were similar to those of the political factionalism of the early 1990s, a decollectivization of policy-making which sometimes hampered and often delayed government reaching an agreed policy. Nevertheless, this new method of consultation had many advantages in encouraging openness of communication between government and outside opinion: but while many more views were brought to bear on policy formation, the fact that officials no longer were as able to test the arguments of outside interests or advise on the weight to be given them, created its own problems. It is often these networks in which officials may often play only a minor part, which are now expected to challenge proposals, give technical advice and 'speak truth to power' as once the civil service did. Campbell and Wilson (1995, p. 32) said UK ministers 'accord civil servants the near monopoly of providing analysis and advice. Were British politicians to start to rely on outside advisers, political appointees or on a *cabinet* of personally selected advisers, the bureaucratic-political relations would have changed fundamentally'. As has been stated, it is not so much a monopoly of advice lost much earlier, but the right of co-ordinating presenting final advice which has recently been lost with similar effect on relations.

As a consequence of all these changes, a toolbox of skills, already less in demand in the 1980s and early 1990s, which the civil service had honed to a fine art underpinning the Cabinet system, became redundant. But civil servants in the Cabinet office – not so much in the cabinet secretariat, but in the Social Exclusion Unit and other units co-ordinating departmental policies – were busier trying to reconcile many departmental differences without an effective system of Cabinet Committees than at any time since the 1970s when there had been such a system.

Other traditional civil service skills had helped ministers cope with their many kinds of appearances before parliament: writing speeches, drafting answers to parliamentary questions, preparing statements and briefs, sitting in the box during debates, helping ministers to prepare for interventions and winding up speeches. Blair followed Thatcher in being disinclined to appear before parliament more than he felt was essential (Kavanagh and Seldon 1999, pp. 280, 285). (Lloyd George had almost vanished from parliament when PM in the first world war and when intensely involved in the peace conference; but he had been a great parliamentarian and Bonar Law took his place in the Commons so that the importance of parliamentary activity did not decline. Moreover both discussed every parliamentary issue and occasion – Jones 1951.) Ministers followed his example. Parliament became of lesser consideration in policy and decision-making. For this reason and because the media spotlight was no longer on it, ministers feared appearing before it less and did not need so much preparation for it – even for PQs – so making obsolescent another traditional set of civil service skills, though a future hung Parliament or one elected by proportional representation could alter this situation.

The fear that ministers once felt before Parliament, they now only felt in

the face of a hostile media campaign. Support in facing the media has replaced Parliament as ministers' staple concern and, while civil servants were called upon to help them with the media, the key roles in this activity became those of news handlers and special advisers (Kavanagh and Seldon 1999, p. 265). An increasing proportion of relations with lobbies and other outside interests was handled as if part of media relations. With the centralization of news management, more of this activity passed to Downing Street.

Though there were again variations between departments, civil servants also found themselves called on to write fewer public documents, a trend which had begun in the 1980s. Under Major, many published documents had been less satisfactory than in the past either because it had proved difficult to resolve disagreements between ministerial colleagues or because the main aim was to establish soundbites in the media rather than to give a clear and coherent account of what was intended. Under the new administration, the tendency continued: more public documents were written on the lines recommended by spin-doctors and often by them. Fear of leaks had been a major reason why the preparation of cabinet papers – once the centrepiece of policymaking – had almost fallen into disuse under Thatcher (private information but see also Kavanagh and Seldon 1999, pp. 177, 201, 203, 286, 314). Underlying them had been a culture of writing things down on paper, making notes of all meetings among officials and with outsiders, the careful writing of minutes up and down the hierarchy as advice on policy and on ministerial decisions was developed. Ministers found this paper culture slow and cumbersome. Reduced in numbers in recent years and faced by ministerial activity on an even greater scale than in the Thatcher years, the civil service found it even harder than under the 1980s and early 1990s to maintain their tradition of record keeping (though electronic record keeping and information handling may soon restore the old position). There were two losers, the collective memory of how issues were handled and the greater difficulty of constructing files if there were to be a judicial or other enquiry. Therefore there was less demand for the traditional civil service skills of writing both public and confidential documents.

However, after 1997, there was a still more fundamental difficulty in establishing the old style of relations between the new ministers and their civil servants. Though as always there were differences between departments and between ministers, more than in the past special advisers in departments and at No. 10 reinforced the distancing of ministers from civil servants. There were twice as many and at least in the early days they spent much of their time with their ministers. They became a main channel of communication between ministers, between the prime minister and other ministers and with the lobbies, and with the networks of interests consulted on each policy. The chief lobbyist of a very large company said he saw more of the special adviser over a crucial issue than his own officials did

(private information). There were exceptions: civil servants still tended to take notes of meetings and the prime minister's principal private secretary came perhaps to have an even more important role than in the past as the effective apex of the whole system.

PERCEIVED SHORTCOMINGS IN THE CIVIL SERVICE

Some of these numerous sets of skills the civil service had developed over time seem therefore to have become as obsolescent as those of the Spitalfields weavers, even if only temporarily, as some people thought; but senior civil servants found nevertheless that ministers and their own rank and file expected new capabilities of them. Many ministers had two principal preconceptions of what they wanted from the civil service and often found themselves disappointed. They had expected better information systems and research services than those provided by the House of Commons Library or by Millbank in their respective spheres. They expected to find their way quickly to a specialist civil servant who knew everything known on a particular topic, preferably backed by an IT system which gave him and therefore them instant access to this detailed factual information world-wide. They were impatient of a hierarchy in which the more senior people asked what the problem was and promised to come back with a summary of relevant information. Rather, ministers and their advisers, in many departments linking into their own policy networks, saw themselves as deciding what was relevant, and determining policies on the basis of it. In the 1980s and early 1990s ministers had been readier to decide policies and had relied for advice at least as much on outside think-tanks and individual advisers as on the civil service. What was new among many new ministers, with their strong think-tank connections, was a greater interest in research, especially survey and social science data, as well as lessons to be learned from social experiments at home and abroad. Not only the systems but many of the people in the civil service came in for criticism. The new ministers and their advisers came to define the 'cleverness' they expected in more knowledge-based terms. The deliberate rundown of many specialized expert units for reasons of economy and because their skills were then disregarded in the Thatcher and Major years, as well as the decay of the old information systems, now reaped a price. It took a while to build up the capabilities now suddenly required. The (Richard) Wilson reforms laid great stress on doing so.

The second set of skills the new government required were those of implementation. Ministers have always needed civil servants to implement policy (Smith 1999, p. 35). Not only because of their lack of ministerial experience but because of the growth of the other pressures on their time the new ministers, even more than before, expected civil servants to implement policy ideas with less detailed guidance from and interaction with ministers than in the past. Officials often found themselves being pressed in a more (Woodrow) Wilsonian direction as indeed they were by

the growth in judicial review, the increased need for legal opinions and the influence of the European Convention on Human Rights (Foster 2000a). The same was true of many other departmental activities. Ministers still needed and got civil service help with the unexpected but they were less inclined to rely on civil service help in their dealings with No. 10, Cabinet, parliament, the media and outside interests or to engage in detailed consultation with interested parties. Instead the call for 'Can-Do' civil servants had still more force than under Thatcher. While some civil servants joined special advisers and other outsiders in a formal *Cabinet*-style relation with ministers, most were expected to accept, not challenge, and then implement policies in the manifesto or agreed in bi-laterals between the PM and other ministers. As a consequence, to an increased extent, the arms-length relationship already expected between ministers and their agencies was turning into the norm for other minister-civil servant relationships, except with regard to their own private offices.

All these changes called for new capabilities in the civil service. They were expected to work more effectively across departmental and agency boundaries. Understandably, their reputation in electronic governance and other forms of IT was not helped by a series of systems implementation disasters. To manage systems implementation well remains a major challenge, as it has been for many private companies. Personally they had to become computer-literate, which most quickly did.

THE WILSON REFORMS

These events were the background to the proposed (Richard) Wilson reforms at the end of 1999 (Wilson 1999a). His report was not analytical. Neither were the recommendations, which composed it, detailed. Most would have been as much at home in a similar report on a large private firm. It called for more coherent objectives, better business planning and action plans, more effective performance management, a more open culture, a better deal for staff, better-incentivizing pay and non-pay packages, better appraisal systems with 360° feedback, better training to make better managers, more outsiders recruited and more early retirement without loss of prestige, and a civil service board with non-executives on it. Even the call for greater ethnic, gender and social diversity of background could be an explicit aspiration in many large private companies. It had been widely suggested indeed that the solution to civil service reform was that Whitehall should be run like a set of businesses and it was even suggested that the need was primarily to secure more businessmen to fill senior civil service posts. Sir Richard Wilson and his colleagues rejected this view as incomplete (Wilson 1999b, p. 9) though not in the report itself or in a way which stated what the differences from business were or what features of the civil service were therefore required to be different from the private sector. Most of the supplementary report on values was again in principle equally applicable to a private firm though there was an important mention of a need to

'assist the current administration whatever its political complexion, respect common standards and principles that bind us together as public servants, comply with the law and uphold administration of justice, base our advice on objective analysis the evidence, use public money properly, effectively and efficiently, use merit as the only measure for selection of applicants and uphold the civil service code' (Mottram 1999, p. 7), but no discussion of what this might mean in new circumstances.

The reasons why the civil service could not be run purely as if it were a business were developed at much the same time in the Smith Institute Report on civil service reform (Smith Institute November 1999. I confess an interest as I chaired its Steering Group in whose own report these and other issues discussed below were principally developed):

- 'Civil servants operate in a political environment of law-making and law implementation.
- They are expected to deal fairly and equitably with every citizen.
- They are accountable to Ministers and hence Parliament.
- The objectives they are given most often are multiple and can be competing – certainly less clear than profit and loss.
- They must work within the parliamentary timetable of legislation and resource allocation.
- They work within a framework of ministerial responsibility.
- They are policy advisers as well as executives, and they have to accept, and adjust to, rapidly changing ministerial priorities.

For all these reasons the planning and implementation of policy is normally more complicated than in the private sector. Another (perhaps more tractable) difference is the degree of risk aversion. To encourage a less risk-averse civil service requires political approval of a new structure of accountability, and an acceptance that some failings or shortfalls are inevitable if a radical or innovative policy proposal is to succeed.

Related suggestions were that the civil service should be as open to short-term appointments from the outside as any business and that far more posts should be given to political appointees. Both were rejected by the Wilson report which stressed the importance of civil service values (Mottram 1999). The Smith Institute Report also argued for a permanent cadre because of different competency requirements, the need to retain people with substantial experience of the government sector, to promote continuity, to maintain political impartiality and to attract and retain a sufficient part of the nation's talent at a reasonable cost. It was not thought desirable to follow the example of the US and other countries where a change of government meant many new political appointments at the top of the government machine with consequent disruption of the work of government (and of the ability of elected politicians in office to pursue their objectives effectively). More late entrants, returners and movements in and out of the civil service should be welcome, provided such appointments were not

politicized or undermined the core of continuity the civil service provides. If not, there was a danger, not only of the spoils system, but of a decline in the independence, objectivity and political impartiality of the civil service which would make transition between governments more difficult.

Even so, new skills were needed. The need to recapture enough mastery of the relevant social sciences, science and technology has already been mentioned: to be able to know, understand and apply knowledge to all problems; but many of these different sorts of expertise needed bringing together, evaluating and drawing together evidence to help ministers solve such problems as BSE (Performance and Innovation Unit 2000a). As well as the need to refresh some specialist capabilities, there was perhaps a need for new forms of specialization among generalists. Especially in the agencies and other executive activities, more skilled general and financial management was needed. New systems of public expenditure control and introduction of resource-based accounting meant that more people trained in financial planning and control skills were needed throughout the civil service. But the huge growth in legal constraints upon ministers' activity – largely the effect of entry into Europe and the growth of judicial review – meant that far more legal opinions were required. Arguably the civil service needs a new kind of specialized generalist, trained and experienced in managing and getting the best out of lawyers through assisting ministers in their client role. (As is so often the case, departments vary in their needs. The Home Office has a much longer tradition of working with lawyers than most other departments.) Greater complexity of modern bill preparation and the implications of policy, the reduced availability of ministers for departmental business, meant a greater need for replacing more informal scheduling of business by more rigorous timetabled and deadlined approaches which require generalist civil servants specializing in programme and project management. As a result of the new Wilson initiatives, the civil service is going to develop these new competencies and capabilities, reflecting them in their recruitment and training programmes.

FUSION OR SEPARATION

One casualty of the long period in opposition has been the slow development of close working relationships between ministers and their senior civil servants. This has been variable between departments and over the relatively short time since the 1997 election, but the general tendency has been a greater difficulty in achieving a close relationship between ministers and their officials than Haldane recommended and that has mostly existed since then, even after 1979, though some civil servants believe that with time these relationships are improving. The Carltona doctrine, of civil servants being the *alter egos* of ministers, had already been challenged when executive agencies were born, as for example over Michael Howard and prisons (Freedland 1995, pp. 21–6; 1996, pp. 19–30). Especially when they were based upon a manifesto commitment, ministers were less keen to receive

full submissions in the traditional manner from civil servants investigating and challenging proposed new policies. As a consequence, bills were prepared and passed through parliament in cases where they were poor and even in some when they were not necessary because the powers and duties already existed (private information). At the same time there was not, as again had been traditional, a civil service submission to the Wakeham Commission on the Reform of the House of Lords and previously to the Jenkins Commission on Electoral Reform, pointing out the background to such changes, the pitfalls previous generations had contemplated as a possible consequence of them, and the links between them as well as between them and other possible constitutional changes.

The tenor of much of what has happened in recent decades as described in this article has therefore been to distance ministers from their civil servants. It has meant that civil servants have become less able than in the past to be the 'hidden wiring', the keepers of the constitution (Hennessy 1995; Smith 1999, p. 111). It has been slightly (Woodrow) Wilsonian in the sense described earlier in this article. In that spirit, the public service agreements define some rules within which civil servants and agencies and other executive activities are expected to operate; but there remains a general informality.

This and the declining ministerial interest in the detail of legislation, and in traditional ministerial decision-making and administration, may reflect a view that laws, regulations and policy documents are less important than they used to be because less permanent. The things that matter now to politicians are no longer as much these traditional outputs, but getting things done: what political scientists mean when they say governance has replaced government (Pierre and Peters 2000). In this view of politics, the prime job of ministers has become the expression of values as in speeches, soundbites and, in more worked-up form, in manifesto and sometimes later post-election commitments. It is then for them directly or through quasi-ministers and political appointees like the head of the task forces to negotiate acceptance of the policies by the various interest groups in the policy networks which may, depending on their nature, involve the EC, other EU countries, other international players as well as relevant pressure groups at home. Again where relevant it will include executive agencies, regulators, enforcement agencies such as the police, and so on. These interests may demand change if their agreement is to be had. From this standpoint, it is principally the civil service's role in the process to handle the details and recommend any changes in the law, regulation, guidance or institutional arrangements as may be necessary (though manifesto commitments may begin with a presumption on new law as necessary which then becomes non-negotiable).

Though there has been no ministerial or civil service intention to move relationships between them in a Woodrow Wilsonian direction, can Haldane and its legal twin concept, the Carltona doctrine, survive the new

relations between ministers and civil servants? Will ministerial decisions seem as legitimate in a system in which *fusion* is no longer so active to support them and which is not as rule-bound as *separation* might seem to require? Can enough be revived to keep (Woodrow) Wilsonianism at bay? If the shift to this last is inevitable, have we begun to think through its consequences for parliament and ministers as well as for the civil service? At one level the issues are legal ones in that the courts are the place in which the Carltona doctrine must be tested, but it is for the political system to decide what kind of civil service and what kind of relationship it wants between it and ministers.

CONCLUSION

In the last 20 years many changes in the organization of government have occurred affecting minister–civil service relations, in parallel with the equally great changes which have also happened in commercial and other administrative organizations. Matters which need to be treated interdepartmentally – never easy in the UK departmental system – have increased. This government's agenda increases their relative importance. The pressure from the media has grown. The structure of government has altered. The full extent of the load upon ministers may not be appreciated quickly. Ministers and civil servants take time to realize what each has to offer. In detail the old ways of working will not, and should not, return. A system is needed which is less dominated by civil servants, who should not have a monopoly of advice or again be as autocratic or hierarchical as they often were. But the Haldane principles of partnership are worth retaining for the sake of diminishing ministerial overload, for efficiency, probity and to help bring ministers up to speed on a mass of issues, often complex and unfamiliar.

Even before the creation of agencies most civil servants were at a distance from ministers. Nevertheless, the opportunity existed for those rising through the Service to spend a period of time learning what it was like to work close to ministers before they went on to the most senior administrative or executive posts. Subject to those opportunities being provided in future, the Haldane system could survive most major changes in the form of government – such as the creation of agencies, the growth of a need for interdepartmental working or 'the end of cabinet government', however, that may be interpreted. The Blair government has been unusually effective in media relations, retaining public support and initiating policies. Where it has not as yet been so successful is in improving the quality of bills, providing an effective basis for all ministerial decision-making and devising better structures for implementing its policies. It is here that retaining the Haldane relationship in all parts of Whitehall will be most helpful, except insofar as it is intended to play down ministerial interest in such matters.

But if the Haldane relationships are allowed to decay, then (Woodrow) Wilsonian or other mechanisms will be needed to connect ministers to

officials and others who implement their policies or execute advice on their behalf in the interests not only of efficient and effective government but of probity. One will also have to consider seriously how ministers are to learn enough to be able to be effective if they are no longer, as in the past, able to learn from civil servants. For the first time there is training of ministers in office and an interest among MPs in being trained in advance, but the scope of such training needs careful consideration.

The greatest losers from this greater difficulty in achieving close partnership are civil servants, especially those closest to ministers. It is no coincidence that for the first time ever it is becoming quite difficult to staff ministers' private offices. Modern attitudes towards parenting have something to do with this, but there is not always the same sense of being at the centre of power: the tension of waiting for the first account to come back from Cabinet Office over the telephone of how one's minister had done on an important issue for him or her in Cabinet or the similar excitement of preparing for and observing a major occasion for one's minister in the House. One consequence of this decline in the attractions of civil service employment will be that sooner or later salaries will have to be paid comparable to those in the private sector, certainly at the higher levels, if the talent required for government is to be nurtured and retained.

But ministers may also be losers from the altered relationships, first because they find it more difficult from a distance to ensure that legislation entering parliament is both well drafted and what they want. (One minister close to being unsuccessful in this way was Crossman himself. Always complaining about his civil servants, he failed to get the best from them. Neither at Housing nor at the DHSS was he thought to have achieved much lasting or anything commensurate with his abilities – Howard 1990, p. 266.) As a result, they find the legislation more likely to be changed as it goes through parliament and even then that it is not what they wanted in the first place. The second loss is the diminishing of some ministers whose abilities are not as enhanced as they once were by close partnership. Several ministers from the Commons have not been as successful as they might have hoped for in developing their talents as ministers as the Haldane relationship might once have been expected to make them. One can recall past ministers who might well not have realized their potential or left behind them a successful reputation without close partnership. Possibly the need will be felt to bring in more ministers and quasi-ministers with what appears more relevant previous experience than to promote them from the Commons. By these various means a greater separation of the executive from the Commons could take place, but one hopes not without the necessary forethought.

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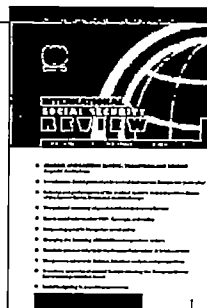
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NOTES AND SURVEYS

MANAGING TAX REGIMES: A CALL FOR RESEARCH

CYRIL TOMKINS, CHRIS PACKMAN, SANDY RUSSELL AND
IAN COLVILLE

Most academic research on taxation relates to higher-level issues of fiscal policy. Much public debate takes place about the calculation and incidence of different taxes, but little academic research addresses the *management* problems that are specific to national taxation regimes. This paper identifies emerging issues and calls for joint practitioner/academic attention on an international basis to address these issues.

INTRODUCTION

Effective tax regime management lies at the heart of public spending policies. Despite this central importance of taxation to the nation state, little literature addresses the *management* of taxation regimes. There is a rapidly developing body of literature on the management of public sector bodies, but the management of tax regimes also involves achieving *compliance* in order to secure revenue as well as achieving a range of economic and social policy objectives. It is this central compliance element that creates additional management issues to be addressed by national tax regimes.

This paper highlights tax *management* as a sizeable, important and relatively untapped field of research in public administration. We identify and extrapolate upon existing social and business trends to identify areas where research will have direct practical value for tax regime management. To

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some extent the paper is speculative, but wise managers build strategies in the face of possible future developments.

THE CHANGING ENVIRONMENTAL CONTEXT FOR NATIONAL TAX REGIMES

Political influences

(i) *Achieving more for less outlay in the public sector*

Since 1970, public expenditure in many countries has increased significantly as a proportion of GDP (see OECD, *Economic Outlook*). This proportion has still not been significantly decreased, but different governments have stressed the need to constrain public spending and, in order to demonstrate credibility in this desire, have required their administrative departments to achieve more with fewer resources.

(ii) *Broader objectives for tax regimes*

Tax policy has also increasingly come to have important business and social objectives so that 'what revenue can we bring in' may not be the only question to be answered. In the UK, for example, increases in tobacco taxation has provided a means by which Chancellors of the Exchequer can demonstrate the implementation of health policy (see HM Customs and Excise, *Management Plans*, 1996–7 to 1998–9). More recently, this has also applied to petrol duties. Here the achievement of tax compliance and non-tax objectives multiple objectives were generally consistent with each other, but it is not always the case. The UK Landfill Tax emphasized environmental improvement rather than the raising of revenue. Customs and Inland Revenue authorities must also now take more account of the way their activities act upon the development and flow of trade. Effective management of tax and customs authorities increasingly calls for skilled handling of paradoxes. This is not just a question of specifying it in terms of high-level policy. It has an impact on managing work at many levels.

The establishment of multiple objectives has also raised the question of where responsibility for achieving those objectives should lie – in the revenue departments or in government departments more directly concerned with the specific social objectives sought. Further movement in the direction of linking tax and economic and social objectives will require attention to the question of government organizational structure.

Economic influences

(i) *Globalization of commerce*

World trade has increased significantly over the last 10 to 15 years. OECD National Accounts (1996) show somewhat more than half of the 29 countries listed increased imports and exports by over 5 per cent per annum between the mid 1980s and mid 1990s. This suggests a heavier workload on taxation of international business, but there has also been a deepening

of corporate cross-border relationships ranging from more international franchising to major international strategic alliances and the establishment of major global companies. These developments bring to the fore the problem of collecting tax and preventing tax evasion on a national basis when business is operating and structured globally. Additionally, global commerce gives rise to other forms of international crime associated with misrepresentation of intellectual property and inappropriate cross-border transfer pricing that directly engage tax and customs authorities.

(ii) *Free trade and prohibitions*

The last two or three decades have also seen an acceptance that world prosperity will grow more through the operation of free trade than through protectionism. This has led to a call for the removal of 'unfair' tax differentials between countries and lower tariff barriers with the consequential lowering of tax revenue, particularly for developing countries. It has also led to demands for quicker entry processing by Customs officials. In addition, the growth in the 'drug problem' and other forms of smuggling has placed increased demands upon tax authorities. Such demands often conflict with the need for speedier processing.

(iii) *The changing structure and process of business*

Recent international competition has created a pressure on firms to become more efficient. In response, many have outsourced their non-core activities. This and the associated corporate collaboration in supply chain management may well lead to collaboration that takes into account differing tax positions and collective tax minimization. Revenue officials may be less able to rely on inter-company prices. Moreover, with the growth of globalization, this networking will develop across national borders.

In addition, corporate production in general, as well as the high earning taxpayer, is becoming more geographically mobile and taxpayer location decisions are likely to become more sensitive to tax differentials which in turn will provide an incentive for increased competition between tax regimes (see Owens 1999). Unless carefully managed, this may undermine efforts at cooperation between tax regimes to counter the growing cross-border difficulties.

Recent developments may also impact upon the taxation of individuals. The concept of the job for life is fast disappearing and it is highly likely that more and more employees will see themselves as 'running their own businesses', supplying their own labour to firms. This may come to have far-reaching implications for the operation of the PAYE system. This is far from trivial.

Social influences

(i) *Ethics, integrity and sustaining a taxpaying culture*

The preamble to an OECD Convention that came into force in February 1999 emphasized:

bribery is a widespread phenomenon in international business transactions, including trade and investment, which raises serious moral and political concerns, undermines good governance and economic development, and distorts international competitive conditions. OECD (1997)

Increased globalization can only add to the temptation to act unethically. Coupled with the requirement of national tax regimes 'to do more for less resource', this may mean that unethical conduct may go undiscovered unless new more resource-efficient ways are found to combat it. An inability of tax regimes to counter such developments effectively would undermine an established culture by which taxpayers are willing to pay tax because it is seen to be fair and to enable the provision of state services. In some countries which have recently moved from authoritarian to more democratic forms of government, it seems apparent that there is little in the way of such a *de facto* consensus and this has led to significant degrees of evasion. Widespread evasion can initiate social breakdown, which in turn reinforces unethical behaviour, often quite beyond just avoiding taxes.

Technological influences

Considerable strides have been made in information technology over the last 20 years and this has affected tax regimes no less than other types of organization. If regimes have 'to do more with less', they have to move more to sampling and systems audits rather than comprehensive transactions checks. Increasing computer power has enabled various forms of extensive statistical bases to be compiled and sampling processes developed. In addition, computerized records have enabled the development of information not previously available. The US Treasury's Financial Crimes Enforcement Network (FINCEN) collates and analyses public databases to identify financial crime and, in the UK, banks file reports on suspicious transactions.

Increased computing power has also led to electronic interconnections between tax regimes and corporate taxpayers to reduce the administration costs and time involved by both. More sophisticated tax regimes have also allowed taxpayers to submit returns in electronic form and there is bound to be an expansion in this practice.

Furthermore, the world is experiencing what many think is only the embryonic stage of e-commerce. This is already giving rise to extensive concern and debate amongst tax regimes. An OECD Ministerial Conference held in Ottawa in 1998 generally concluded that existing taxation principles can work in an e-commerce environment and that the tax system should treat all types of business according to the same principles. This is obviously fair, but that is not to say that new methods will not have to be developed to achieve these ends in an expanding Internet environment.

Customs regimes usually operate a policy of not chasing taxes on small items according to a *de minimus* rule. It is possible that there will be a massive increase in small electronic transactions directly between pur-

chasers in one country and suppliers in another part of the world such that these small transactions can no longer be disregarded if the tax base is to be protected. The Australian Tax Office (see ATO Report 1997) emphasizes that wholesalers, distributors and retailers are disappearing and that it will no longer be possible to check transactions through such leverage points. Lawrence *et al.* (1998) refer to anecdotal evidence in Australia that hundreds of millions of dollars is being lost in duty and wholesale tax collections.

Moreover, much of e-commerce might not even involve the transfer of physical goods. Knowledge, blueprints, how-to-do-it plans, management processes, industrial marketing, consultancy, professional services, stock exchange transactions, gambling, music and other forms of entertainment may all come to take place in e-space with encrypted electronic payments. Moreover, the location of the web site and e-mail 'bank' can be frequently and quickly moved to a different country.

The secondary goals of tax regimes relating to the prevention of money laundering and discouraging socially undesirable activities through taxation may also be compromised. Revenue regimes are urged by the OECD to seek new ways to enforce compliance that do not inhibit the development of e-commerce. The need to manage paradox becomes evident once more.

Quite subtle implications also arise from how e-commerce transactions will be classified. Tinawi and Berkey (1999) discuss how the classification of e-commerce transactions according to the GAT Framework has very practical implications for the liberalization of trade and, if care is not exercised, might lead to disguised differences in tax rates by trade negotiators acting in their own country's interests.

IMPLICATIONS FOR RESEARCH

It is not suggested that tax regimes have stood still in the face of such changes. Developments have taken place in risk management and efficiency improved through various forms of market testing, privatization and benchmarking. Some regimes have undertaken internal organizational change to reduce the emphasis from centrally driven bureaucracies into looser collections of more autonomous units employing local initiative and local knowledge to provide a better chance of delivering organizational goals. Similar arrangements are coming about in many developing countries by the establishment of semi-autonomous revenue authorities. Nevertheless, such organizational movement is still marginal and the management of tax regimes will increasingly have to adapt to on-going changes in globalization, information technology, changing business structures and processes, and, in some countries, increasing challenges to the underlying ethical values that enable a national tax regime to function.

Recognizing this, a Tax Management Research Network (TMRNet) has recently been established at the University of Bath led by a Steering Group comprising The OECD Fiscal Affairs Unit, the UK Inland Revenue and HM

Customs and Excise together with members of the University's School of Management and the Centre for Fiscal Studies.

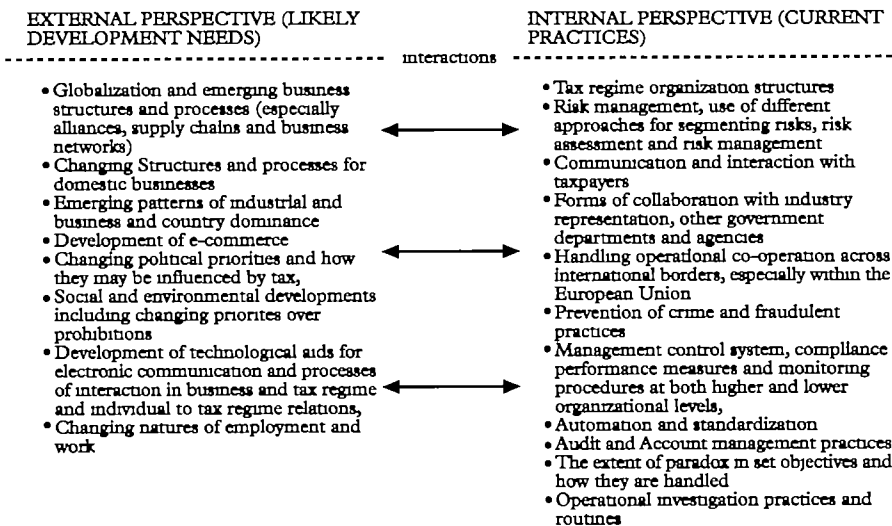
At its inaugural meeting, the Steering Group agreed that TMRNet will set out to organize research from two different perspectives:

1. to better understand and predict what will happen to society and business over the next decade or so and how that will impact upon tax management and, perhaps, via that on tax policy;
2. to examine problems associated with specific existing tax management practices.

Initially, the research is being undertaken by a number of staff of the two UK tax revenue departments on part-time secondment and supervised jointly by senior practitioners and academics from Bath, although steps are also being taken to develop separate funded work. The intention is gradually to extend this work into an analysis of comparative tax *management* practices and an understanding of how they vary with context and how they might further adapt over the next one or two decades.

In outline, the two different standpoints indicated above from which to approach this research can be set out as shown in figure 1. Work needs to start from a consideration of how the environment in which tax is to be levied might change and what implications that will have for taxation. Such issues are illustrated in the first column of the figure. At the same time, we need to better understand how different tax regimes operate and, where appropriate, why they differ. Relevant topics related to that perspective are illustrated in the second column of the figure. On the internal perspective,

FIGURE 1. *Conceptual outline of research programme in tax regime management*



there is a growing exchange of information between different tax regimes, but, so far, these efforts have been spasmodic and involved exchanges of information directly between individual practitioners. Recently there has been more systematic benchmarking amongst a number of Customs authorities, but this is only a first step. Work from each perspective should obviously inform the other with management implications derived from the interactions between the findings in each column.

This is also a favourable time to seriously promote the case for such research. Tax and customs authorities have sought, usually through bodies such as the World Trade Organisation or OECD, agreements on tax legislation and definitions of tax concepts. These agreements have not been concerned so much with issues of the *management* of the tax regimes – although, in the Customs area, there has recently been some focus on management issues under the auspices of the WTO, DGXXI within the European Union and some limited interaction between managerial feasibilities and policy in the OECD debate on e-commerce. If much of business is going global, tax regimes need to go global – at least to the extent of exchanging managerial experiences. There is also the need for academic research alongside this in order to make broader sense of these experiences and whether they will continue to make sense in a changing world.

It is obvious, however, that the task as set out by TMRNet is a very large one. A complete mapping of the dimensions of figure 1 will require research resources beyond Bath and the two UK tax departments. The idea behind TMRNet is that it should be extended to become the focus for organizing such research in the UK for all those wishing to become involved in this venture. Moreover, TMRNet should seek to build an international network of academics and practitioners studying these matters, built upon the existing OECD wide-ranging governmental links and also, perhaps, with academics at Harvard, Tokyo and Bath, and the IBRD in Amsterdam, who are already cooperating over the new tax management prize competition run by the OECD. All this suggests that a major international effort will be required, but the maintenance of an effective tax system has a major affect on all our lives and so should be of vital concern to all governments and both business and individual taxpayers.

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REVIEWS

TRANSFORMING BRITISH GOVERNMENT

R. A. W. Rhodes (ed.)

Palgrave August 2000

Volume 1: Changing Institutions. 312 pp. ISBN: 0-333-75241-4 £50.00.

Volume 2: Changing Roles and Relationships. 320 pp. ISBN: 0-333-75243-0 £50.00.

MICHAEL MORAN

Edited collections are a debased currency these days but Rhodes's two volumes go a long way to restore their value. The essays here are outstanding. They report at chapter length the main findings from the projects funded by the ESRC Whitehall Research Programme, of which Rhodes was Director. By social science standards the money spent amounted to big bucks – £2.1 million to be exact – but on the evidence here the projects were cheap at the price. By any possible measure of the New Public Management the ESRC got value for money. The constantly absorbing interest of these essays (there is not a dud in the two volumes) comes from their intellectual focus, and this focus is clearly signalled in the title. British government has indeed been transformed in the last two decades, and the big questions are about the meaning and desirability of that transformation. Asking the right questions (or at least interesting ones) is the first condition of good scholarship and Rhodes and his contributors therefore get off to a flying start. Whether we agree with their answers, still less with Rhodes's account of their answers, hardly matters from the point of view of evaluating the programme. Love it or loathe it, the findings of the Whitehall programme now have to be the starting point for any serious student of British government.

First the highlights. It is invidious to select, but who cares? (The Priestleyesque bluntness of Rhodes's style is catching.) The 'must read' chapters in Volume 1 are Bulmer and Burch on the Europeanization of British central government; Page and Daintith on internal control, meaning control within departments; and Hood *et al.* on regulation within government. (In the world after Nolan I should declare an interest: Bulmer and Burch are col-

leagues of mine.) In Volume 2, not to be missed are Kavanagh and Seldon on the institutional world of number 10, Norton on Ministers, Parry and Deakin on the Treasury and Social Policy, and Theakston on Permanent Secretaries. Rhodes has in some cases been scooped by the very industry of his contributors. For instance, only read Page and Daintith, and Hood *et al.*, in these volumes if you want a taster; otherwise, the unexpurgated versions are available (Daintith and Page 1999; Hood *et al.* 1999 and 2000.)

Now the for the Subject Review question: where is the value added? What do we get here that we didn't have before all the money was spent? There are two sets of answers, one indisputable, the other contestable. The indisputable answer is that, even in these short chapters, we have a rich mine of evidence that will be quarried for a long time. Much the richest evidence comes from the reported interview material: almost all the contemporary projects report interviews with public officials of a detail and frankness inconceivable a generation ago. In a special, different, class are the data on structural changes in the organization of central departments in Britain, 1964–92, summarized briefly in Mclean *et al.* (Chapter 8 of Volume 1); page 138 gives the URL for this now invaluable research tool.

The more contestable answer is to the question: what are we learning in substance from these studies about the transformation of British government? Here we encounter a strange but recurrent feature of research reported in virtually all ESRC research programmes. The justification for a programme is that it is a collective effort to address research questions. But there is actually little evidence of collective effort across these reports – hardly any cross referencing of findings, for instance, in the individual substantive chapters. I take that to be a verdict on the weakness of the ESRC format, not on Rhodes either as research director or editor. On the contrary: if Rhodes cannot pull that particular trick off, it is probably beyond mortal capacity. Since the researchers, immersed in their own problems, do not attempt the job of course Rhodes has to do it himself in his summary chapters. And he does it in a way that will be now familiar to all admirers. Volume 2 concludes with one of the latest ingenious ideas to come from his fertile intellectual imagination: that we must deconstruct the study of British government into a series of narratives, none of which has a firm foundation. This is a bit of a surprise because Volume 1 actually concludes with a narrative that plainly occupies a privileged place – Rhodes's now familiar governance narrative of fragmentation, dissolution of bureaucratic hierarchies and the spread of resource dependent networks. Rhodes is careful to offer all this as a personal interpretation of the findings. Here is my rather different personal interpretation. To avoid being influenced by the editor's distinctive voice, in reading the two volumes, I deliberately deferred reading his two concluding chapters, not only until I had read the rest, but until I had sketched my own narrative. For what it is worth, my rather different narrative of government transformed is as follows. There is less to 'transformation' than meets the eye. Those very traditional insti-

tutional building blocks of British government, departments, still matter tremendously. Indeed one of the major contributions of these volumes is to establish – or to reinstate – the department as a major institutional actor. British government is essentially tribal. The overwhelming loyalty is to the Ministerial tribes, the power lies with the tribes and the distinctive cultural boundaries are defined by, and within, the tribes. These are major themes of chapters otherwise very different in their style and in the kind of data they use: of Seldon and Kavanagh on the Prime Minister's support machine; of Norton on the way Ministers conceive their role; of Smith, Richards and Marsh on the changing role (to which add the changing cultures) of central departments. The big systemic changes are therefore met in an *ad hoc* fashion precisely because they have to be mediated by the Ministerial tribes – something I take to be a central lesson of Bulmer and Burch on Europeanization. In short, this reader's narrative – again the Rhodes' style is infectious – is more traditionally Weberian than is that offered by Rhodes himself.

And the next step? Were the ESRC wise enough to give Professor Rhodes a second barrowload of money, and were he foolish enough to accept a second sentence as a programme director, where should a transformation study now go? I offer three suggestions, one methodological and two substantive. Methodologically, the next step is obvious: we need some good ethnographies of British government. Smith, Richards and Marsh note early in their chapter that government does not generally welcome research based on direct observation. Not long ago, of course, government did not much welcome interviews either. We should make them an offer they can't refuse. We have probably got as far as possible with Chatham House rule interviews. We need to go into joint ventures with anthropologists to get some direct observation of the Whitehall tribes. The possible pay offs are illustrated by Hall, *et al.* in their wonderful ethnography of OFTEL (2000). Second, we need to have answers to the question: is British government any good at its job? These two volumes map the contours of transformation. But the age of transformation has also been the age of policy catastrophe. Those wonderful people who brought you transformed government also brought you the Dome and the BSE fiasco. Is there a connection? I think we should find out. Finally, there is a kind of shadow comparison that runs through many of these chapters that should be brought out of the shadows: the comparison with institutions and processes in the private business sector. There is a suggestive beginning in the way Theakston starts to use some of the literature on business leadership in his chapter on Permanent Secretaries. Many of the ambitions that lie behind transformation were inspired by views of how the business sector does things – and, of course, were often shaped by key business figures. How ironic that the two key business figures who conveyed so much of best practice from the private sector – Rayner and Griffiths – brought lessons from firms that in the 1990s turned into corporate invalids. We will better understand the character of

PUBLIC SERVICE, ETHICS AND CONSTITUTIONAL PRACTICE

John A. Rohr

University Press of Kansas, 1999 208 pp., £12.76 (pb)

John A. Rohr, who is a professor of public administration at the Center for Public Administration and Policy at Virginia Polytechnic Institute, is one of America's most distinguished senior administrative scholars. His book, *Ethics for Bureaucrats* (1978), introduced ethics as a significant aspect of research and teaching throughout American public administration. His *To Run a Constitution* (1986) provided for America's Bicentennial a thoughtful, in-depth study of the critical relationship between the US Constitution and Administrative State, it was also a pathbreaking exploration that helped to set new intellectual agendas for the field, at least on this side of the Atlantic. Professor Rohr's *Founding Republics in France and America* (1995) stands out as one of the best contemporary comparative books written by a US administrative scholar. Unquestionably, whatever he decides to research, Rohr does it with a care, clarity and comprehensiveness that is matched by few one of the best contemporary comparative books written by a US administrative scholar. Unquestionably, whatever he decides to research, Rohr does it with a care, clarity and comprehensiveness that is matched by few within modern American administrative sciences.

In this volume, Rohr collects 20 of his seminal previously published essays written between 1973 and 1998, focusing upon ethics and arguing that ethical practice by public servants demands an immersion in the specifics of our constitutional practice. He offers guides for civil servants to reflect upon specific constitutional principles and learn how to apply them to the decisions they make, particularly in the context of timely issues such as financial disclosure and the treatment of civil servants as second-class citizens.

As he stresses at the outset in his Preface, the author had three goals in mind while preparing this volume: 'first and foremost is to remind public servants of the nobility of their calling . . .'. 'Second, I stress the constitutional, dimension of the work of public servants in order to reinforce their legitimate role in articulating public interests against the obvious excesses of private interests . . .'. 'Thurd, I hope to encourage public managers to make greater use of constitutional language to describe their everyday activities' (p. xi). Rohr develops his themes by dividing the book into five sections: (1) 'Presenting the Problem' which covers the issues surrounding public service professional ethics, (2) 'Education and Training' that focuses upon his writings concerning that topic; (3) 'The Character of the Civil Servant' dealing with specific problems such as ethics for the senior executive service or the oath of office, (4) 'Separation of Powers' which is one of Rohr's repeated academic interests relating to constitutional theory and public service; and (5) 'The Comparative Context' in which his research during the past decade or so has explored several of these problems in a cross-national context.

For Professor Rohr, this collection of essays in one volume, as he suggests, was a reflective exercise to sum up and synthesize major intellectual themes developed over his remarkable academic career. The book conveys well the significant ideas and key contributions of Rohr's work. Certainly for those new to the field, this work will provide 'the basics' to familiarize anyone with Rohr's key theoretical contributions over the past three decades.

Yet, does it say anything new or advance our knowledge, especially for those academics or practitioners who have already read Rohr's major books?

Unfortunately, this volume adds little. If the author had developed an extensive introduction that gave us insights as to the hows and whys he engaged in these critical studies; or, if he had provided an extended conclusion showing us where his current thinking on ethics is headed; or, if he had simply responded to the critics of his earlier arguments and theses, students and practitioners would have gained important, useful new perspectives. So in the end, *Public Service, Ethics and Constitutional Practice* is disappointingly 'a retreat' of old themes on the constitutional basis of US administrative ethics loosely interconnected by a wide range of insights about topical issues that the author has already written about, often in greater depth and with more rigour.

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THE ROAD TO MAASTRICHT. NEGOTIATING ECONOMIC AND MONETARY UNION

Kenneth Dyson and Kevin Featherstone

Oxford University Press, 1999, xxiii + 859 pp., £75 (hb), £25 (pb)

The book under review is a major work in the study of European integration with a particular emphasis on the formation of the Maastricht Treaty and the Economic and Monetary Union (EMU), that is, a crucial part of the process of European integration.

The bulk of the volume is dedicated to a detailed and carefully constructed analysis of a number of mainly national case studies (France, Germany, Italy and Britain) presented as parallel analyses followed by a chapter discussing the individual role of Jacques Delors as Head of the Commission during the Maastricht process. The interaction between important core actors including heads of states, top government officials from mainly foreign and finance ministries, and central bank officials, is studied in great detail. The case studies are to a large extent based on interviews with key participants in the Maastricht negotiations and rely relatively little on previously published material apart from the official records of the Intergovernmental Conference (IGC). As such, the book constitutes an important source of indispensable knowledge for students of the road to monetary union in the EU. The presentation of separated case studies, however, also implies that one may easily get lost in the enormous amount of details presented over the almost 900 densely written pages. The same stories are presented somewhat differently in the different case studies, and by concentrating on a single case study without knowledge of the others the reader may get a rather partial picture of a complex totality.

The Road to Maastricht is not a theoretical work but the authors are very much aware of the importance of theory. They boldly note that they became aware of a gap in their understanding during the research process that led to this book. Hence they also realized 'the risk of pursuing theory at the expense of forcing complex reality into a straitjacket' and they 'eschewed the option of theoretical parsimony for an approach that remained indebted to theory but not driven by it' as they put it (p. ix) in an important methodological statement. Contingency models are preferred to structural models. Cognitive and strategic aspects as well as the interactivity of structure and agency are emphasized both in theoretical discussions (especially in Chapter 1) and in the case studies.

It is impossible to do justice to the rich empirical case studies and the wealth of details presented in *The Road to Maastricht* in a short review. A few points may, however, be mentioned. Important general issues – such as the importance of transgovernmental linkages – are carefully discussed and empirically assessed. Important historical issues – such as the linkage between a French concession on the German diplomatic recognition of Croatia and Slovenia and a German concession on a fixed date for the third stage of monetary union (pp. 250, 443) – are highlighted. The national case studies demonstrate the rather different national trajectories towards a more or less shared acceptance of a common cognitive framework. Hence, in spite of the fact that 'German policy was presented in the form of – "We do not want a German Europe, but a European Germany"' (p. 375) – a version of the German model nevertheless ended up as the basis of EMU (see, for example, p. 368).

The case studies carefully trace the processes of negotiation and the formation of policy beliefs and transnational coalitions leading to this particular version of an EMU. In the analysis of the IGC it is for instance shown how Italy – initially close to France on a number of crucial issues – was gradually abandoned by the French, as France preferred to align itself to the German–Dutch camp in view of the weak bargaining position and domestic problems of Italy. As the Dutch and the Germans had set entry tests for EMU in a manner which seemed designed to exclude Italy (p. 508), a choice was effectively imposed on the French: Italy or the Dutch–German camp. Similarly, the origins of the convergence criteria formulated as a part of the transition to the EMU are also analysed: initially they were mainly part of a German conception and it is shown how France, for example, *gradually* adopted similar conceptions. Perhaps in order to overcome German mistrust and avoid appearing as non-credible to the Germans (p. 153); perhaps because of 'the willingness of the French negotiators . . . to reflect critically on their beliefs and to change them' (p. 33); perhaps because the Germans had already gained many of their key bargaining objectives which put the French in a heavily constrained defensive position.

(p. 234); or, finally, perhaps because of changing forms of hegemony as well as the empowerment of social actors hoping to benefit from a changing conception of economic policies?

The question mark perhaps indicates both strength and a possible weakness of *The Road to Maastricht*. The authors have chosen not to privilege causal models and one may indeed ask whether a precise response to the previous question can be given. How much sense would such a response make? Any interpretation will depend at least partially on the methodological choices underpinning the analysis. *The Road to Maastricht* is largely based on interviews with key actors in the Maastricht negotiations. This approach presents important advantages, in particular regarding the availability of information, but it may also pose certain methodological problems which are perhaps insufficiently addressed by the authors. Thus actors may have a natural tendency to *ex post* justify or rationalize their actions in ways that differ from *ex ante* motives and reasons, and interpretations based on actors' perceptions and self-understanding may imply a built-in bias towards an underestimation of structural factors and driving forces less visible to the eyes of the involved actors.

Even if we accept that 'structure failed to provide an adequate theory for examining the internal dynamics of the EMU negotiations' (p. viii), the question whether structures have been adequately conceptualized and analysed remains open. Thus the authors perhaps tend to pay insufficient attention to issues of power related to political economy. For example, little attention is paid to the issue of the Germans withholding tax on interest income introduced in 1989 (pp. 192, 351–2). The well-organized German savers vetoed the harmonization of taxation on income from savings by use of the *exit* option (capital flight). Domestic sectoral interests thus *did* impose themselves in a way which was distinctively more than as a 'background contextual factor to the formation of government policies and strategies' (p. 772). Similarly, the role of advocacy coalitions (e.g. pp. 31–2) are little discussed in relation to (structural) issues of (em)power(ment) and economic interests. Important issues related to the degree of decentralization of the European System of Central Banks (ESCB) and the possibilities of *national* central banks to pursue certain forms of monetary policy independently from the ECB are not considered. The authors limit their discussion of the ESCB to Articles 10 and 11 of the ESCB/ECB Protocol while they ignore Article 18 (implying the possible continued role of national central banks in certain financial market operations) which may assume an important role in issues such as the control of currency reserves and the handling of public debt.

Let us conclude by quoting from the cover text: according to Professor David Cameron '*The Road to Maastricht* is a magisterial work, one that provides the definitive account of the politics that produced EMU'. Magisterial? Yes, indeed so. The definitive account? Well, history will tell us in due time – provided that we know how to interpret the response(s) supplied by history. The present reviewer, however, would prefer to be slightly less affirmative.

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RENEWING LOCAL DEMOCRACY? THE MODERNISATION AGENDA IN BRITISH LOCAL GOVERNMENT

Lawrence Pratchett (ed.), F. Cass, 2000
152 pp. £35.00 (hb), £16.50 (pb)

There is some agreement that local government in the United Kingdom is in crisis. Factors such as voter apathy, variation in the quality of services between local authorities and the weak accountability of elected representatives have contributed to public dissatisfaction with local government. It is for these reasons there is now widespread support for the project to modernize local government and to renew local democracy.

Supported by academic and applied research, with encouragement from the Local Government Association and the Audit Commission, the process of modernization appears to be an exemplar of the

new consensual form of policy making promoted by the Blair administration. Nevertheless, in spite of the apparent widespread support for the project to modernize local government, it is uncertain whether the government can surmount the contradictions within its policy.

Lawrence Pratchett has brought together a selection of essays that discuss several of the difficulties facing the modernization project. First published as a special edition of *Local Government Studies* it is published as an edited volume for a non-specialist audience. While none of his contributors reject the need to reform local government, collectively they question the coherency of the government's proposals for the democratic renewal of local government.

From the seven chapters, four themes are evident. First, the modernization of local government is discussed in the context of the government's programme of constitutional reform. In their essay, Andrew Gray and Bill Jenkins conclude that the centralizing tendencies of the unitary state eager to ensure territorial justice are not easily reconcilable with the countervailing claims for local self-government.

A second theme considers how councils are looking towards new and more experimental forms of participatory democracy to supplement traditional forms of representative democracy. Steve Leach and Melvin Wingfield argue that the government's proposals for extending public participation are less prescriptive than other proposals in the modernizing project. Leach and Wingfield conclude that if local authorities are allowed flexibility in how they consult with local electors, some authorities will use participation imaginatively but others may be inclined only to pay it lip service. Moreover, they argue, effective public participation depends on citizens having an informed appreciation of policy developments and the promise of opportunities to influence policy. However, it could be argued that implicit in the model of omnipotent political executives favoured by the government, public participation will take on a symbolic form and, in practice, provide fewer opportunities for local electors to be involved routinely in strategy or policy decisions.

The challenge of the existing political culture in local government to the modernization agenda is the third theme in this volume. Colin Copus in his essay examines the barriers to democratic renewal presented by organized and often highly disciplined party groups. While Copus accepts the presence of party politics in local government, he is highly critical of what he describes as the highly corrosive effects of party groups on local democracy. Copus rightly points out that party groups have been a feature of local government politics since the Victorian improvers and economisers, yet he argues councillors' loyalty to their party and group reduces their freedom to act independently. This is not a new concern but is one that denies the realities of political behaviour. Political parties, representing different interests and values (albeit usually inadequately), compete to win elections to ensure that local or national governments adopt policies that reflect their own world view. It would be astonishing if once elected, party managers allowed representatives elected on their party ticket to act as free agents.

Ironically, the modernizing agenda promises to increase rather than reduce the opportunity for councillors and political parties to promote their party's interests to the detriment of local democracy. Directly elected mayors will be a considerable prize for national political parties. As illustrated by the debacle over Labour's and the Conservative nominations for the Mayor of London. Even the scrutiny committee system promises to be tainted by party discipline. If Labour removes the group whip from its councillors on scrutiny committees, as Hilary Armstrong promises, some groups will undoubtedly resort to 'informal' whipping, arguably, an even more undemocratic practice. Copus disregards the propensity of politicians to trade votes, building alliances and coalitions. He also ignores the close links political parties have to their local government representatives. Indeed, in many cases, councillors are often the mainstays of local parties, working with their national organizations and representatives to maintain the local electoral machine for national elections.

Lastly, returning to the themes of the contradictions and tensions in the modernization project, Vivien Lowndes examines the expectations of the actors in contemporary central-local relations. She argues that the government and the local government community hold quite different expectations of central-local government relations. Her proposition is that the government believes that local government must fulfil its obligations to comply with the government's modernization project; only then can councils be rewarded with increased autonomy. But there are strong voices within the local government community that claim that councils will only be able to connect with their communities by being granted greater autonomy.

Overall, this volume is a welcome contribution to the debate on democratic renewal in local govern-

ment. The contributions are, on the whole, well written and argued by essayists that have considerable experience in the field. Yet, for those readers who are looking for a robust critique of the modernization project or even a discussion on the Labour's leadership distrust of local government, this collection will not satisfy.

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ARTICLES

REGIMES ON PILLARS: ALTERNATIVE WELFARE STATE LOGICS AND DYNAMICS

ROBERT E. GOODIN AND MARTIN REIN

Social welfare arrangements represent the conjunction of the twin logics of regimes and pillars. Regimes describe who receives the benefits and on what conditions; pillars describe who pays for and who provides the benefits. There are historical associations and "natural" affinities between certain regimes and certain pillars. But there is also scope for novel combinations and recombinations. Many contemporary welfare state reforms are best conceptualized in terms of shifting the mix of pillars and blurring regimes.

What kinds of welfare society are the mature capitalist countries building as they enter an era of reform of institutional structures for providing pensions, welfare and social services? That is the focal question of this article. We attempt to answer it first by clarifying the established concepts for classifying welfare societies and then by illustrating the complex interaction among those alternative schema.

Attempts to understand and to reform contemporary welfare capitalism inevitably turn on visions of alternative possibilities, articulated at some suitably general level of abstraction. The options for choice are typically characterized in terms of one or the other of two dominant analytical schema. The first deals in terms of 'regime types': liberal, corporatist or social democratic (Titmuss 1974; Esping-Andersen 1990, 1996, 1999, Ch. 4; Goodin *et al.* 1999; Goodin and Smitsman 2000). The second deals in terms of 'pillars': market, state and community/family (World Bank 1994; OECD 1997; see similarly Burchardt 1997; Cutler 1996; Schmahl 2000, Vol. 1, p. 2;

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Rainwater, Rein and Schwartz 1986; Beresford and Croft 1984; Johnson 1987, 1990; Rose 1985, 1986).

The 'regime' perspective sees things from the recipient's point of view. The central organizing question in regime discourse is 'who gets what, and on what conditions?' The 'pillar' perspective sees things from the provider's point of view. The central organizing question in pillar discourse is 'who pays, and who provides?'

In practice, of course, both perspectives are clearly required. No-one can receive anything unless someone pays and provides it. Still, the social science of stylized facts and overarching typologies is all about where the emphasis should fall – and so too is the policy discourse drawing on it.

In earlier welfare-state studies the emphasis fell largely, and understandably, on the 'regime' question. Indicative of that dominance of the recipient's perspective in previous regime analysis is a casual aside from Gøsta Esping-Andersen at a recent OECD conference, to the effect that 'I do not believe that how the welfare state is financed is especially important' (OECD 1997, p. 226).

Of course he knows better. Indeed, the long tradition of comparative welfare state studies running from Titmuss through Esping-Andersen has always been acutely sensitive to the interplay of public and private sectors in welfare provision. Titmuss's seminal 1955 inaugural lecture on 'The Social Division of Welfare' emphasized that fiscal and occupational welfare are parts of the welfare state – and perverse parts at that, redistributing to the rich. Esping-Andersen's notion of 'decommodification' sensitized us to substitutability of market and non-market modes of welfare provision; and several of the indices he used to measure alternative welfare regimes in his *Three Worlds of Welfare Capitalism* pointed to different modes of providing everything from health care to old-age pensions (1990, pp. 74, 77–8). But note well: the interest there was not in those alternative modes of welfare provision in their own right, but merely their usefulness as indirect indicators of what really interested traditional welfare-state researchers, which were the alternative modes of 'conditionality' built into the terms on which the benefits were received.

Thus, in previous discussions of comparative welfare states, the 'pillar' question was collapsed into and subsumed by the 'regime' question. In those discussions, it was typically treated as simply axiomatic that liberal welfare regimes relied on the market pillar; corporatist welfare regimes on the family and community pillars; and social democratic welfare regimes on the state pillar. It is precisely because Esping-Andersen (Esping-Andersen 1990, pp. 74, 77–8) assimilated pillars to regimes in this way that he could, with such great confidence and so little further comment, literally incorporate indicators of pillars into his indices of regime types.

Our aim here is to prise apart these two discourses of 'regimes' and 'pillars'. Certainly there are some "'natural" affinities' between the two; certainly some regimes sit more comfortably atop some pillars rather than

others. Still, the two discourses are distinct, both analytically and, increasingly, politically as well. Whatever their "'natural" affinities' may be, analytically there is plenty of room for 'mixing and matching' of different types of regimes and different type of pillars (see similarly Collier and Adcock 1998). And politically, that is precisely what is occurring in today's increasingly fluid policy world.

Van Mannen (1995, p. 138) aptly characterizes social policy as a 'world that is in continual flux, a world that is always becoming'. Ideal types, so sharply distinguished in theory, are increasingly intermixed in practice. Shifting from a static picture of models to an emphasis on dynamic change, we see much evidence of both 'mixing' and 'blurring'. In the mixing of pillars, the driving force is the shift in the roles and responsibilities assigned, respectively, to the state, the market and community/family spheres of society. In the blurring of regimes, the driving force is the increasing complexity in the modes of conditionality deployed by any given welfare state in dealing with different policy domains, such as different stages of the life course (universal benefits in childhood and old age, means-tested ones during the working years) or different functional forms (cash transfers, services or in-kind benefits). Sometimes the mixing of pillars and the blurring of regimes occurs independently of each other. More often, they occur together, in complicated interaction.

A HISTORY LESSON

Strong *a priori* positions inhibit our ability both to recognize the complexity of the welfare institutions that we actually embrace and to understand the ways in which they evolve. To help motivate our proposals for a more refined analytic framework, let us first recall how questions of 'who pays and who provides' were introduced through the backdoor into earlier regime-based analyses. Then we shall illustrate some of the blind spots and distortions introduced by that inattention to the complexities thereby introduced.

Pillars through the back door

What is the classic model of regimes that has dominated the field of comparative analysis of welfare states? A brief historic tour is in order here. Social policy analysts came to discuss regimes through an appreciation of the variety of ways that the state organizes the public transfer system. Their focus in those enquiries was unmistakably on the variety of forms for the organization of programmes and policies administered in the public sector. But that idealized typology of state action arose from both a recognition and a rejection of the prevalence and dominance of the indirect role of the state in stimulating and financially supporting of the private sector.

The story begins with the seminal inaugural lecture of Richard Titmuss on the 'Social Division of Welfare', in Britain in the mid-1950s, and it culminates 35 years later in Esping-Andersen's influential *Three Worlds of Capi-*

talism, based on Titmuss' early work. It is the continuity of thought, and the stable structure of argument on which welfare state types are based, that we want to stress here.

Titmuss's 'social division of welfare' fell into three parts: fiscal welfare (tax expenditure); occupational welfare (market-driven social benefits provided by private employers and the state in its role as employer, rather than to the general public); and social welfare (direct provision by the state) (Titmuss 1955). He eloquently argued that fiscal and occupational welfare – public income forgone through tax allowances and pensions provided by firms, respectively – were perversely redistributive, multiplying the privileges of the better off in society. Only public direct spending was capable of redistributing benefits in a fair and just manner to a society's citizens, preventing the creation of 'two nations' in old age. In his later work Titmuss (1974) transformed this insight into three models of different ways of organizing social welfare in the public domain. He called his three regime types: residual (means-tested provision for those in need); redistributive (through universal social protection); and industrial-achievement (where benefits and contributions were integrated to promote work incentives).

In constructing his index of three types of public regimes, Esping-Andersen also recognized – as had Titmuss (1955) before him – the pull toward private provision of health and pensions, relative to public spending for pensions. In *The Three Worlds of Welfare Capitalism*, Esping-Andersen (1990) clearly *seems* to use the term 'regime' in an extended sense, reaching beyond the public sphere. He says, for example, 'For pensions, our analyses will distinguish what we argue are critical differences between regimes. We will thus examine degree of programme corporatism (number of status-defined separate pension plans); the *etatist* bias (expenditure of civil-service pensions as a percentage of GDP); the relative importance of private-sector pensions ... and what might be called the social security bias ...' (Esping-Andersen 1990, p. 111). This description would seem to suggest that Esping-Andersen incorporates into the notion of 'regime' a much broader framework embracing all pillars, the state or 'public' pillar being only one among several.

Esping-Andersen's intention, however, is merely to show that the larger these alternative indirect roles of the state, the smaller is its role in direct welfare state spending aimed at promoting universal and adequate coverage for all citizens. Thus, the extent of means testing is his index of a market liberal regime. The role of the state as employer in the provision of civil servant pensions – interpreted as privileges to special occupational groups – is his key indicator of a corporatist and hence conservative regime. Only social democratic regimes aimed at universalism (measured through indicators of the percentage of people covered and of the levels of generosity and of equity of pensions, unemployment and sickness benefits).

The logics of regimes were therefore originally conceptualized in terms of different ways of categorizing the tax-transfer structure of public pro-

grammes, based on the degree to which public provision relies on means testing, or universal and equal flat-rate benefits, or contributory earnings-related social insurance.

This focus was perhaps appropriate in the early years of the welfare state, during the great expansion of the public sector and the increasing functions and responsibilities assumed by the state. Even then, the story was actually more mixed. (Recall, for example, how The Netherlands simultaneously mandated private pensions in 1949, at around the same as enacting Emergency Provisions, made permanent almost a decade later, providing for a universal flat-rate age pension, thus recognizing the need to supplement a universal public pension with a fully-funded private pillar.) That public-sector focus has become increasingly inappropriate in more recent stages of welfare-state transformation. These have put renewed emphasis on the varying non-public arrangements for realizing the very same functions (in meeting people's needs, redistributing income, delivering services and so on). In this context, the concept of 'pillars' was a complementary idea, stressing in addition to the state the role of markets, the institutions of civil society and the family.

Hence arises what we believe is a main source of confusion in the comparative welfare-state literature. That literature tends to assume that a regime approach already contains within it a pillar approach, since it includes in its measure the size of private pensions and the occupational benefits provided by the state as employer for a select group of civil servants. And on the assumption that regimes already contain pillars, drawing a distinction between the two would be wrong-headed.

But this is simply wrong in turn. Regimes, as they were traditionally conceptualized, refer only to the role of the state and the varied direct institutional arrangements used for distribution within it. Pillars, in contrast, are about the other institutional arrangements in addition to the state that are used in the spheres of the market, the community and the family.

Claus Offe has made the distinction we are trying to draw here with great force and clarity. 'Old design options are monistic, relying on the state, the market or the community as the ultimate guarantors of social order and cohesion. More promising solutions are essentially "impure": none of the three principles of social order is to be relied upon exclusively, but none is to be denied a role within a composite and complex "mix" of institutional arrangements' (Offe 2000b).

Consequent confusions

Refusing to recognize these complexities had serious analytical consequences. At the micro level, we found ourselves unable to draw a clear distinction between wages and salaries, on the one hand, and 'social protection transfers', on the other hand (cf. Titmuss 1955). Eurostat's efforts to draw a sharp line of demarcation between the economic and social illustrate

the problems encountered in reaching a formal definition of 'social protection'.

Consider three major items that are excluded from that definition. Excluded are all insurance policies taken out at the private initiative of an individual or household (only third-party transactions of institutions are included). Also excluded are transfers made as a 'simultaneous equivalent counterpart' (because these are defined as economic transactions). Education and training programmes are treated as 'investments in human capital', and not social protection (which is restricted to protection against risks, contingencies and needs). Ironically, the exclusion of education is a departure even from the convention adapted in the OECD series on social policy, where the focus is on the size of the public sector and education is therefore included.

Within the private market sector, Eurostat excludes from 'social protection' all fringe benefits which are part of wages and salaries. That seems right, when for example it comes to vacation pay or the use of the company car. But it is not nearly so obviously right to exclude from the category of 'social protection' things like employer-provided or employer-subsidized child care or housing or subsidies to pay for a child's educational expenses or for a worker's training opportunities. Focusing on institutional sources of support based only on third-party transactions also leads to the paradoxical exclusion of the giving and getting of social help among immediate family members and of the social protection provided by adult children for their aged parents.

The effect of the Eurostat definition of 'social protection' might thus be to make the family irrelevant, and to make market pillars seem much thinner than perhaps really they are. It also makes the state pillar seem thinner than really it is. Consider what happens when government policies mandate firm-based health insurance or old-age pensions (as in Holland, Switzerland and Australia) or require the firm to pay sick benefits that used to be paid by the state (as now in Germany, The Netherlands and the UK). Not only does the size of state spending appear to be reduced; on the Eurostat definition, the expenditures that government mandates firms to undertake toward those social goals does not even count as 'social protection' (instead being subsumed within wages). Even the OECD definition of 'public expenditure' is not consistent in this regard (Australia's mandated pension provision of 1992 is not counted, but Switzerland's is, for example).

At the macro level, the initial focus on regimes as alternative modes of organizing public provision blinded us to instances of the blurring across regimes. Consider the experience of Denmark and Sweden – two countries that are presumed to typify the idealized social democratic regime. From 1976 onwards, social benefits in Denmark took on a classically social-democratic form. A law enacted in 1976 had *'done away'* with most of the insurance schemes, and streamlined all of the various public assistance schemes. The main insurance scheme remaining, unemployment insurance,

was paid for by the state but administered by the unions' (Sorenson 1998, emphasis added). Thereafter, the rule in Denmark was that:

someone who experiences an unfortunate event producing a loss in that person's standard of living will contact the local welfare office and obtain the support needed to recover from the loss. The nature and magnitude of support will depend on the need of the client as decided by the case-worker. There is no relationship between past contribution and support. The only qualification for welfare benefits is residency in Denmark. People should not be left out because they were not employed, failed to meet an insurance obligation or had not paid taxes. The system considers individuals as the basic unit; youngsters are considered independent of their parents when they are 18 (16 if they do not live at home); and, for a number of services, what matters is the individual and not family status.

But as Sorenson (1998, p. 18) goes on to say, all this threw the Danish welfare state into a state of crisis. It was providing generous benefits, few punitive consequences for taking advantage of the system and little personal stigma for beneficiaries. In place of older habits of obedience and a willingness to obey rules, there arose a new strain of individualism, trying to get the most out of the system by opportunism and bending or breaking the rules. In the end, Denmark had the highest level of welfare state spending from general taxation. The reaction has been sharp. Since that social-democratic high-water mark in 1976, 'Danish welfare state developments . . . are arguably best described as a return to means-tested public assistance – something strongly opposed by the Social Democratic party' (Sorenson 1998).

A second macro-level example of blurring is illustrated by the massive increase in means testing in Sweden in the early 1980s. Solonen (1993) reports a dramatic increase in the receipt of means-tested public assistance among youth of 16–29 years of age: youth 'has replaced the sick and the elderly as the predominant group among such recipients'. Across the population as a whole, about 20 per cent received means-tested public assistance at some time or other during the 1980s (Rothstein 1998).

From these accounts, the evolution of social policy within social democratic regimes suggests a blurring of the demarcation that is supposed to differentiate regime types. But there is more than just blurring among regimes. There are also examples in these social democratic countries of the equally pervasive mixing of pillars.

In social democratic regimes the state is supposed to be the main provider of welfare services and cash transfers and to become increasingly so over time. Instead we see a growing importance of market-based cash transfers at the heart of the welfare state – namely, for old age pensions, which have traditionally accounted for fully half of total welfare state spending. Of course, occupational pensions have always been important, and they have

become ever more so (Shalev 1996). But the new Swedish model of pensions goes well beyond traditional occupational pension plans.

In the new Swedish pension arrangements, there is a first pillar (which is expected to decline over time) designed to protect the low-wage worker. This was the historic 'folk' pension which evolved from a means-tested programme in 1913 to the universal, citizen-based, flat-rate public pension after World War II. The second pillar is now based on a large notional defined-contribution plan. The worker has an individual account and is credited with contributions plus interest, which is calculated on the basis of growth of per capita wage income; upon retirement, that notional capital account is then converted to an annuity, taking account of life expectancy. The new arrangements are not designed to be redistributive. The intention is instead merely to make the contributions transparent in a way that will serve as an incentive to work. Nestled within the second public pillar lies a third pillar, much smaller than the second. This is a 'premium reserve' pillar, constituted by resources equal to 2.5 per cent of total contributions. Its unique feature is that it is a fully-funded and privately-managed defined-contribution plan, whose assets are (within constraints) invested according to choices made by the individual worker. (This model is in opposition to a partially-funded system with a mandated private pillar.)

On these three pillars now stands an extensive contractual occupational pension system. 'The vast majority of Swedes are covered by one of four large group occupational schemes that provide coverage equivalent to an additional contribution rate of about 2 percent' (Palmer 2000, p. 3). Issues of cost were certainly responsible for driving this transformation. But another main idea behind the new pension system is to increase work incentives by making the system actuarially fair and viable. To achieve this aim the system should be more an insurance system and less a system for income redistribution (Wadensjö 1999). But this precisely is what Titmuss (1974) called an 'industrial achievement model': a regime focused not on redistribution but on incentives to work.

As these examples of blurring and mixing make clear, there is in practice a serious problem of demarcation within and across regimes and pillars. Hence we need to pay particular attention both to the ways in which these systems are linked and interact, as well as to the ways in which they are different and independent of one another.

TOWARDS A SHARPER DISTINCTION BETWEEN REGIMES AND PILLARS

At this point, let us pause to sharpen the lines of demarcation between regimes and pillars. The basic analytical distinction we propose is this: Regimes refer, at root, to 'who gets what and on what conditions'. Pillars refer, at root, to 'who pays and who provides'.

Seen in that light, the discourse of regimes takes the perspective of the beneficiaries, whereas that of pillars adopts more the point of view of the

benefactors, in their capacity as payers and providers. Of course, each takes an interest in the other. The beneficiaries care who their benefactors are, if only because some may pay more or on better terms than others. Benefactors similarly care who gets their benefices and on what conditions. Although thus inevitably linked, those two perspectives nevertheless remain analytically and pragmatically distinct.

Like all 'ideal types', regimes and pillars point to generic features which no specific state completely embodies. Idealizations and typologies can nonetheless serve to identify polar cases that define limiting cases and that determine the force fields whose interaction drives the dynamics in between them.

Regimes: who gets what, on what conditions?

There are many ways to differentiate welfare regimes from one another. One classic sort of distinction, for example, would be between claims grounded in the 'rights' of citizens (the social democratic regime), 'needs' of the poor (the liberal) and 'deserts' of workers (the corporatist) (Marshall 1949; Offe 2000b).

On our account, 'regimes' of welfare are differentiated from one another according to who receives their benefits and according to the conditions set for their receipt of them. The principle of conditionality thus serves as our central criterion for distinguishing regime types.

The ideal-typical *social democratic* regime provides public universal flat-rate benefits to everyone, with no conditions. There are, of course, virtually no real-world examples of a flat-rate benefit paid to all citizens, without any conditions. But pensions paid conditional just upon age and residency sometimes come close. In Denmark (and perhaps more surprisingly, Canada and New Zealand, too), there is a flat-rate citizen pension financed from the state budget; and in Germany and The Netherlands, there are mechanisms within contributory pension schemes for giving workers credit for having earned more than they actually did or for having contributed for more years than they actually did (out of their own earnings, anyway).

The ideal-typical *liberal* regime provides means-tested benefits on condition of need, paid to everyone who is in need and in amounts just sufficient to alleviate their basic needs. Again, in practice the criterion of need is seldom free-standing (it is typically accompanied by some other condition or conditions, of age, family type, a work test, a transfer test; or whatever), and needs-tested benefits admit of many variations. They might be rationed (such as housing allowance) or they might be an entitlement available to everyone who meets the qualifying tests (such as AFDC, before the 1996 US welfare reforms). Needs-tests might be based on assets or income or earnings or receipt of other transfers (as is now the case with the Swedish 'folk' pension). The unit of need could be the members of a household, or a family or individuals. The test of need might be an indirect one, paying benefits only to a demographic group who are presumed to

be poor on average (such as the aged, or children) or to a family type (such as lone mothers) or even to an identity group (such as native Americans).

The ideal-typical *corporatist* regime provides benefits upon condition of appropriate workplace contributions, paying benefits which are broadly proportional to those contributions or previous earnings (which, insofar as contributions are a fixed proportion of previous earnings, amounts to much the same thing). Again, though, practice typically departs from principle, in that benefits are rarely strictly proportional to contributions or earnings in any strict actuarial sense.

(Indeed, in Germany entitlement to an old-age pension can be acquired by having five or more children and no contributions from earnings. The Federal Constitutional Court ruled in April 2001 that it was unconstitutional for people who are bringing up children to be required to pay the same premiums as insured persons without children, on the grounds that people who made no contributions to maintaining the number of active future contributors would then be receiving an unfair financial advantage [*Frankfurter Allgemeine*, English edn, 4 April 2001, No. 80/14, p. 1].)

As we have said, real-world welfare states almost always mix several ideal types. Within a given programme, flat-rate benefits of a social-democratic sort are sometimes paid only after a claimant has passed a liberal-style means test. Or benefits might be funded through contributions which are proportional to earnings but paid out on a purely flat-rate basis (as with the basic old-age pension in The Netherlands); or benefits can (as in Switzerland and the United States) have higher replacement rates for low-wage workers, thus making them more redistributive.

Or, yet again, contributory schemes of a corporatist sort sometimes contain floors and ceilings, making their benefits more nearly flat-rate (hence social democratic in style) than strict corporatist-style proportionality of benefits to contributions would imply. This can occur if the rules are not periodically adjusted to take account of labour market changes of two types. A significant portion of the labour force at the bottom of the distribution is often excluded, owing to the growth of non-standardized jobs where hours worked and earnings are below the level of entitlement to enter the public social security system. (This happened in Germany with the 630 DM exclusion from pension entitlement: monthly income below this amount was regarded as insignificant and therefore it did not earn entitlement to social security benefits.) A similar process can occur when the ceiling is not adjusted to take account of the growth of wages. (This occurred in Sweden, where the ceiling was continuously defined as eight times the base amount: this led to the exclusion of a larger proportion of total income from coverage within social security, triggering a search for income supplementation in the private occupational pension system.)

Across programmes, the same state often employs different regime logics for different stages of the life course. The US welfare regime, for example, seems to be a predominantly liberal, means-tested one as regards healthy

people of prime working age (Goodin *et al.* 1999); but as regards the elderly, it is very much an insurance-based system, much more in the classically corporatist mode (Marmor, Mashaw and Harvey 1990).

In so far as different rules of conditionality apply at different stages of the life course, or in different functional domains, the analytical unity of a 'national' welfare regime is lost. The ideal types retain value, analytically and prescriptively, even if most states' actual arrangements are hybrids of one sort or another. But this proliferation of hybrids does provide one clue that helps to account for the instability of regimes and pillars – an issue we discuss in more detail below.

Pillars: who pays and who provides?

On our account, welfare 'pillars' are differentiated from one another according to who pays for their benefits and who provides them.

The ideal-typical *state* pillar pays for people's welfare through general tax revenues and provides welfare through state agencies staffed by public employees. The ideal-typical *market* pillar has each person's welfare being paid for by the returns on that person's own labour or capital assets, secured in free exchange with anonymous others and others in contractual relations with him or her. The ideal-typical *family* pillar has the welfare of non-earning members of the household (paradigmatically, children and non-working wives) being provided for within that person's own nuclear family, paid for by the market returns on the labour and assets of that family as a whole. The related *community* pillar ideal-typically has the welfare of non-earning members of the community as a whole being provided by non-state organizations within civil society (churches, charities, affinity groups or whatever), financed by voluntary transfers from those organizations to recipients.

(Assistance within the extended family clearly falls within the family pillar insofar as the blood ties are strong. But where they are more attenuated, the extended family begins to look more like a voluntary association – akin to the 'brotherhood' of a trade union or Friendly Society, for example – than an ascriptive one; and mutual aid within those sorts of organizations seems more part of the community pillar, or perhaps even a quasi-market one insofar as it is governed by a self-consciously risk-pooling logic of mutual insurance.)

Supposing pillars are essentially about pay/provide issues, it then stands to reason that they should be more apparent in the delivery of in-kind goods and services than they are in the case of cash transfers and income support – if only because in the case of services the role of the agent providing them is so much more prominent. In the service sector, the state traditionally both paid for and provided services such as compulsory public education. But more recently the state has departed from this model, introducing an increasingly visible divide, as the state pays for contracted-out services in both the market and non-profit sectors. (The state also increas-

ingly insists on co-pay arrangements, which require that individuals contribute to paying for the cost of care.) Health is the most obvious example here, when the state pays for the care that is provided by autonomous self-employed medical practitioners or by profit-making institutional providers (such as nursing homes or hospitals) that in turn employ the medical practitioners in the private sector labour market. The 'personal social services' are personalized precisely in the sense of being tailored to the recipient's personal circumstances and delivered on a one-to-one basis by some identifiable service provider, increasingly other than the state. Broadly the same is true of in-kind goods and services more generally. In the circumstances of such personalized service delivery, the agency of the provider is foregrounded – and questions of 'who pays and who provides' are likewise.

In contrast, public sector cash transfers (especially of a rights-based sort) are often delivered in a relatively impersonal manner, down-playing the role (and perhaps even identity) of the provider. In the limiting case, cash transfers come just as a cheque drawn on the Treasury and sent through the post or deposited directly to the recipient's bank account.

While pay/provide issues may be less immediately apparent in cash payments such as pensions, they have come nonetheless to play an increasingly important role. Administering financial accounts in individually funded insurance schemes involves separate tasks which, in effect, create a pay/provide divide. There is first the task of collecting contributions. In some cases the government collects these contributions and then divides them into a public and private account (Sweden). In other cases the government mandates that firms pay contributions directly into Funds. The Funds have then to provide individuals with an account of these transactions. The Funds furthermore need to provide actuarial services management services during the period that the monies are accumulating and to provide payments during the phase when the accumulated assets are converted into an annuity. Thus, a multi-pillar system splits pay-and-provide functions, in ways that a public system does not (Fox and Palmer 2000, p. 26).

With pillars as with regimes, various arrangements straddle different ideal types. One example to which we have already alluded concerns 'mandates'. Perhaps the most striking is the Swiss Constitutional Amendment, passed in 1972 and taking effect in 1985, requiring employers to provide pensions for their employees (Queisses and Vittas 2000, p. 5). Strictly speaking, all the paying and providing is done through the market sector; but of course it is done involuntarily, through governments mandating that firms provide occupational pensions to workers with earnings above a given level. Australia too has a mandated system and Holland has a partially mandated one (there, a contractual agreement is reached by the social partners, and the state then extends this agreement on all firms in the sector, including those who did not initially participate in the agreement).

Another form of contracting-out allows welfare to be paid for out of general tax revenues (that is, the state pillar) but to be provided through non-

state agencies. (Of course, the state retains some supervisory oversight responsibilities, and contractors providing welfare under contract to the state are acting on its behalf as its agents; thus, in some sense the state is still ultimately the 'provider'.) Subcontractors funded by the state might include market actors, of a commercial ('for profit') or charitable ('not for profit') sort; or they might operate through voluntary community organizations or family members. A variation on that theme is found in Japan and the UK, where there are formal 'opt out' provisions in the public social security programme, permitting people to shift into a private occupational pension scheme so long as that is at least as good as the public scheme.

LINKING REGIMES AND PILLARS

Each regime's internal logic – the distinctive 'mode of conditionality' which it imposes on receipt of its benefits – has certain implications for issues of 'who pays and who provides', which gives rise to certain "'natural" affinities' between certain regime types and certain pillars. But as we go on to show, those "'natural" affinities' should be conceptualized more as 'default options' than as unalterable analytical givens. Much contemporary effort at welfare-state reform is aimed precisely at deliberately rejigging regime-pillar combinations in various 'non-standard' ways.

Commonalities

Before elaborating on how different regimes rely on different pillars, we must first emphasize the various important respects in which they rely on precisely the same pillars in precisely the same ways.

Firstly, all these regimes are set in the context of societies where the family (increasingly nuclear and single-parent though it may be) remains a central locus for meeting people's most important welfare needs. That is true not only of people in their formative years but also at the last stages of their lives, as adult children both give and get a range of services (if less so cash) to and from their aged parents (Kunnemund and Rein 1999).

Secondly, all these regimes are set in the context of a modern state fulfilling its variously authoritative, paternalistic and democratic roles. Such a state assumes responsibility, more-or-less automatically, for public goods and services, ranging from national defence and environmental quality through public health and education. Again, across all regime types, a great many of people's welfare needs will be met through the agency of the state; and that remains true, despite efforts by some states to shift certain functions to other pillars of society.

Finally, all these regimes are regimes of 'welfare capitalism', set squarely in the context of a market economy of paid work, especially for people of prime working age and in 'standard employment relations'; and it is through participation in that market economy that most people's welfare needs are met most of the time. That is true across all the regimes we shall be discussing.

Consequently, all regimes typically require individuals who are themselves able to work to be willing to work. What is seen as constituting a legitimate reason for not working, and what is seen as constituting willingness to work (and, indeed, what is seen as constituting 'work'), all vary from one society to another. But a tendency to 'put work first', as a social priority if not necessarily as a strict condition of receiving public benefits, is common across all three welfare regimes. And (in some cases ironically) all are prepared to spend large sums of public money doing so: the amount of money saved by the 1996 US welfare reforms pales in comparison to the extra money being spent (up from \$6 billion in 1984 to \$45 billion by 1996) on Earned Income Tax Credits supplementing the income of the working poor so as to 'make work pay' (Ellwood 2000, pp. 189–90; Bane and Ellwood 1994).

'Natural' affinities

Where welfare regimes differ is in the arrangements that they make for those parts of people's welfare which the state accepts as its own responsibility, and in the relative weight that different regimes put upon the market, state and community/family pillars within those arrangements.

The social democratic welfare regime is, as we have said, characterized (in its ideal form) by the unconditionality of its benefits. It pays universal, flat-rate benefits to every citizen (or perhaps to every long-term resident) of the state. The pillar most 'naturally' suited to providing benefits of that universal sort seems to be the state. Citizenship is not universal, necessarily. But it certainly is more nearly so than are labour market or family attachments: unemployment and homelessness are far more common than statelessness.

That gives rise to something of a "'natural" affinity' – owing to the universalism that they both share – between social-democratic regime logic and the state pillar. In times gone by, perhaps a national church with universal membership among members of that nation could have provided similarly universal benefits, funded through a universal tithe. But in the modern world, the state is the only remotely universalistic entity encompassing broadly the same catchment; and that makes the state the most natural provider of universalistic benefits to people within its borders. Furthermore, the state's general tax revenues are the broadest and most nearly universal revenue source within any given jurisdiction; and that makes general taxation the most natural mechanism for funding the social democratic welfare regime's universal benefits. The state and its general fund revenues are not the only conceivable mechanisms here, to be sure. But they are clearly the most natural mechanisms in the modern world.

The corporatist welfare regime is, as we have said, characterized by work-tested benefits paid to heads of households and shared within the family. Corporatist benefits are conditional upon a suitable work history

(on the part of the head of household) and family attachment (as regards the rest of the household).

That mode of conditionality creates a "natural" affinity' between the corporatist regime and the twin pillars of the market and the family. The corporatist welfare regime most naturally provides its benefits through occupationally-based funds (be they formally in the public or private sphere), financed by workplace contributions (whether from employees or employers or both), with benefits being paid to heads of households – and through them (or their heirs) to other members of the household.

There is of course a strong element of such social insurance arrangements in virtually all welfare states. But that is just evidence of the mixing and blurring which we shall go on to discuss. Our point, here, is just such these arrangements are ideologically most congenial to corporatism's peculiar mode of conditionality; the arrangements fit less well with other regimes' modes of conditionality (even if that does not stop those other regimes from grafting onto themselves these sorts of arrangements).

The liberal welfare regime is insistently residualist, relying even more heavily than either of the other two upon most people providing for their own and their own family's welfare through their own efforts in ordinary economic markets. But many people or their breadwinners are out of work, or work for low wages – and when the market and family pillars fail to meet people's basic needs in this way, recourse to the state pillar is required. But the liberal welfare regime pays benefits only to those who are in need, and only insofar as they are in need: in this respect, the liberal welfare regime is characterized by a needs-tested mode of conditionality.

Of course, beneficiaries often have to meet certain other criteria as well (of age, disability, family structure and so on – many of which are designed to avoid moral hazard, or 'self-induced need', among the working-age population). And even if someone is formally eligible for a benefit, there may still be another external criterion limiting actual access to it. Housing assistance, for example, is typically limited in relation to need or demand for it, so a system of rationing is imposed by placing individuals in a queue for housing vouchers or public housing. In the US, this is represented as contrast between an 'entitlement' programme (where the government is under an obligation to ensure that all eligible persons receive the benefit) and 'discretionary' ones (which are subject, among other things, to budgetary limits on the availability of revenue to provide the service).

Again, the state is not the only conceivable source of support for everyone in need. Neither is the state the only possible provider of such assistance nor its only possible funder. The money might be raised by private charities relying on philanthropic contributions, or the state may raise the money through general taxes but pass funds to needy people through such non-state agencies. Nevertheless there does seem to be a "natural" affinity' between the liberal welfare regime and the state pillar, in paying for and providing residual benefits – and of course between the liberal welfare

regime and the market pillar, which it hopes will avoid any need to provide such benefits in the first place.

Novel combinations

Next let us survey some 'novel combinations' between regimes and pillars. We do not pretend that our survey is exhaustive. Instead, our aim here is merely to sample some of the new combinations currently being canvassed in explorations of alternative welfare state structures.

There is, as we have said, a certain affinity between the social democratic welfare regime, the state pillar, as being the most natural way to provide and pay for the universalistic, flat-rate benefits that lie at its core. But even if the state pays, non-state entities can sometimes more effectively provide the welfare benefits in view. Thus, social democratic regimes characteristically work at least in part through the family pillar, providing welfare through family allowances or child benefits or indeed any other cash benefit that households are free to reallocate among their members as they please. And as social democratic regimes become increasingly sensitive to the limits of state bureaucracy, they are also increasingly contracting out welfare delivery to private (commercial or charitable) providers in the market or community pillars (Rothstein 1998).

Or, again, there is as we have said a certain affinity between the corporatist welfare regime and the market pillar as the most natural way to provide and pay for the occupationally-based, work-tested benefits that lie at its core. But the state is an employer, too. The occupationally-based benefits that the state pays for and provides to its own employees are paradigmatically part of the corporatist regime. And tensions among those public sector schemes and between public and private sector schemes do much to drive changes in corporatist regimes over time.

Corporatist regimes typically start out being organized on an occupation or industry basis, delegating policy decisions to a self-governing structure of unions and employers. Initially, in most places (and still, in The Netherlands), there is quite a large variation in private pension plans, with the government broadly respecting the autonomy of these pension funds. But eventually the government is usually led to impose (by regulation or by legislation) uniform standards across industries, so the self-governing boards come to have little discretion and hence no capacity to create any important differences across industries or occupations. At that point, despite their different origins and regime logic, corporatist regimes can in practice look ever so much like social democratic regimes – extracting uniform contributions from, and paying uniform benefits to, all workers.

Similarly, we have said that there is a certain affinity between the corporatist welfare regime and the family pillar as the most natural way to pay for and provide welfare benefits to non-workers within the household. But a corporatist state pillar can and sometimes does assume responsibility for paying subsistence benefits, on a purely individualized basis, to any non-

employed persons within the household. Or, again, the corporatist state can pay family members directly to care for disabled relatives (as happens in Germany, if the insured person selects this option rather than hiring a professional nurse in the open market).

There is also, as we have said, a certain affinity between the liberal welfare regime's residualism and the market pillar, on the one hand, and between the liberal welfare regime's benefit structure and the state pillar, on the other hand. But there are various ways in which liberal regimes might use the state pillar to pay for and indirectly provide people with market-based jobs or job training. One recalls how the American state created, through its Medicare and Medicaid health programmes, a large and profitable nursing home industry.

There are various other ways in which the liberal regime might rely on the family pillar to pay for and provide people with welfare benefits. Liberal means-testing is conventionally done on the basis of the income of the household or of the family unit (Eardley *et al.* 1996). Household-based means-testing presupposes, perhaps wrongly, that income will be shared among members of the household. New Australian rules denying unemployment benefits to persons under age 21 force them, in effect, to rely upon their families (or, failing that, private charity) for support. Or again, rules of 'filial responsibility' have in the past required claimants to exhaust the resources of their extended families (sometimes stretching so far as to include to their in-laws) before claiming state assistance (Schorr 1980). Although nowadays typically not enforced – or anyway not for long, given the collective protest they evoke, on the recent experience of Quebec – it is a nonetheless telling fact that in many places they remain on the statute books and continue to attract the interest of the OECD (Scherer 2000).

STARTING HERE AND ENDING UP ELSEWHERE

Despite these apparently '“natural” affinities' between regime types and pillars, based on the conditions regimes set for receiving social benefits, we ought clearly to recognize that the 'natural' is socially constructed (Peattie and Rein 1983, p.20; Stretton 2000, pp.282–3). Rules defining 'unconditionality', 'work-conditionality' and 'needs-conditionality' can all be altered, by design or by accident. Thus a country may start with one regime type, only to discover that it is not stable over time, so the regime ends up in a quite different place from where it historically started or where it was actually attempting to go.

Climbing down the ladder of abstraction, and examining evolutionary dynamics within and across specific programmes, gives us a better grip on the pragmatics of how blurring and blending, mixing and matching actually occurs across pillars and regimes.

In some countries there appears to be a pattern of perpetual instability in social policy. Britain is perhaps a good example, at least at one level. Germany, by contrast, is said to have evolved an 'amazingly robust social

policy arrangement that turned out, in the course of a century, to be flexible in its operation as it is durable and even rigid in its logic'. Offe (2000a, p. 13) attributes that robustness to two features of the moral economy of social insurance: first, the state cannot divert resources to other purposes; and second, the benefits and burdens of redistribution are largely randomized, since redistribution is mainly temporal (across generations) rather than social (across classes).

But there are threats to the stability of even the remarkably robust German social security system. Despite having survived intact through two world wars and the political transitions of socialism, fascism and social democracy, what is finally forcing change in the German system is the government's decision to include on an equal basis almost 10 million East Germans who never contributed anything into the West German contributory social security system. The funding for this massive expansion was supposed to be totally absorbed within the social insurance system, so that social insurance contributions have now risen to 42 per cent of the total wage bill. Such levels are widely believed to be unsustainable, and the current Red-Green government first proposed that a mandatory fully-funded pillar be introduced, later changing its mind to make the new system voluntary. Proposals have been introduced in Parliament, but with no final decision at the time of writing. It does seem likely, however, that the inclusion of the former Communist regime into West Germany will be the driving force precipitating evolution within the once hyper-stable German pension system.

Programme evolution is subject to several forces. First of all, 'history matters' in the development of social programmes as in much else. Past actions and choices condition (positively and negatively) the scope for future actions and choices, making the development of social programmes 'path dependent' (Pierson 2000). Also at work is a 'policy feedback' dynamic. Here, how the system is structured and how long it has been in place (the 'maturity' of the system) influences the future degrees of freedom available to link pillars and regimes.

Programmes also evolve through 'value conflicts' and actions, interactions and transactions (Dewey and Bentley 1949; Emirbayer 1997, p. 281) among agents (states, firms and so on) striving to resolve them. Programmes inevitably involve multiple, conflicting goals (Weaver 1998a; Marris and Rein 1982; Ellwood 1988, pp. 14–26; Thatcher and Rein 2000). Resolving one value conflict, or one design flaw, typically generates unintended and perverse consequences which in turn put other cherished values in jeopardy (Hirschman 1982; Berlin 1998). Sometimes there is a debate about what choices should be accepted, but there is change neither in policy nor practice. On the other hand, sometimes there is a dramatic change in practice, one which no-one chooses. (For example, in many countries, local prisons are the largest institutions that care for and control the homeless.) In all these sorts of circumstances, the extent to which an agent

can initiate a process of action-and-reaction depends not so much the constraints of the past, but on a shift of context in the present. The use of the disability system to pay for the early retirements of older workers is a case in point (Kohli *et al.* 1991). This is another, very different, example of the way in which programmes might change under 'the enormous weight of past policy choices' (Weaver 1998b, p. 212).

Shifting regimes: means testing versus universalism

Now let us consider some concrete examples where regime types have changed over time. Consider the following three examples of shifting, blending and blurring between social-democratic-style universal programmes and liberal-style means-tested ones.

The first example illustrates how what is formally designated as a means-tested programme can come to function *de facto* as a near-universal one. The age pension system in Australia provides a good example, both of the liberalization of a means-tested programme in one historical period, and of subsequent efforts to shift pillars to undermine the effect of that earlier liberalization.

The Australian age pension is funded entirely from general revenues, and it is both income- and asset-tested. (Actually, the asset test was revoked in 1976, only to be reintroduced in 1985.) But the benefits are generous (the cut-off point where a married couple loses entitlement to all benefits is as high as 90 per cent of the average weekly earning). Although starting out otherwise, by now the coverage is almost universal: 80 per cent receive a full or partial age pension or (for war veterans) a means-tested service pension (Goodin and Le Grand 1987, Ch. 6).

Seeing this as a transformation from means-tested to a generous and near-universal programme may however rest on a misunderstanding of the programme's intentions. Liberal regimes' means-testing is usually associated with targeting of the poor. But in the Australian context it might be more of a 'tall poppies' test, designed just to cut out the rich ('tall poppies') by excluding the top 20 per cent of the high-income and high-asset population (as suggested by Sheila Shaver, quoted in Schultz 2000).

There are other sides to the story, as well. One is sheer cost: 'What started out to be a highly selective program for the most needy continues to be more a program for most elderly persons. And the rising costs of this nearly universal benefit have been a major factor in focusing national attention on private pension options' (Schultz 2000, p. 17). But it was not cost alone that was the driving force behind Australia's introduction of a privatized pillar. Superannuation benefits provided by firms had long been largely concentrated among white collar workers: blue collar unions objected on grounds of equity; and expansion in the coverage of private pensions came as a consequence of a wage accord, whereby unions were willing to accept wage restraint in exchange for the expansion of private pensions.

Still, there does seem to be a tension between the objectives of the flat-

rate, near-universal regime and the mandated private pillar. They function not as complementary tiers but rather as alternative spheres of provision, so the stronger and more comprehensive the mandated private pillar becomes, the weaker the public age pension regime becomes. One way to ease this tension between the pillar and the regime is to make the regime universal and non-means-tested, with no conditions of entitlement beyond age. But this universalistic 'basic-income' approach to making the pillars complementary rather than antagonistic does not seem to be on the political agenda, if only for reason of sheer cost (it would increase the roughly 3–5 per cent of GDP presently spent on age and veterans' pensions alone, leading to a large expansion of the public sphere).

Our second example illustrates a change from a universal to a means-tested programme. Canada provides a prototypical instance of what Myles and Pierson (1997) describe as a 'paradigm breakdown', with the rules of conditionality shifting from universality to targeting. The numbers are indeed dramatic. Data on the share of targeted cash benefits as a percentage of total income transfers show that selective benefits, which had historically been growing only very slowly (from 21 per cent in 1960 to 29 per cent in 1975), leapt quickly in successive years, reaching 52 per cent by 1992 (Myles and Pierson 1997, Table 1, p. 448).

How can we explain this transformation from a system based on universal flat-rate benefits for the aged and children, financed from general revenue, to a system based on a negative income test, clawing back through the tax system the universal benefits allocated through social policy? Myles and Pierson (1997, p. 453) argue that 'claims based on citizenship alone are especially vulnerable to income testing'. In Canada, this erosion occurred in several stages. In 1978, 'Canada finally abandoned universal family allowances . . . and replaced them with a single income-tested Child Tax Benefit'. In 1996 a similar transition was made for the aged, with the introduction of Senior Benefits; this scheme, which became effective in 2001, introduced a new income-tested programme to replace the various earlier rules of conditionality, based on universal entitlement, guaranteed income supplements and tax clawback for high-income seniors.

Our third example illustrates how the weaknesses in the design of citizen-based universal-type social benefits can be addressed by relying on alternate pillars rather than shifting to income testing. The much heralded Beveridge system in Britain was based on the twin principles of flat-rate benefits and flat-rate contributions for those earning above a set minimum and contributing for at least 35 years; and a recent study by Lui (2000) shows that, by making pensions conditional on contributions rather than citizenship, almost 20 per cent of the aged in modern Britain are excluded from entitlement to the basic pension. By contrast, in the United States coverage based on contribution is almost universal, with more than 95 per cent of the population eligible for social security benefits.

A system of social benefits based on solidarity – interpreted as universal

access for all citizens – can be designed in a wide variety of ways (van Gunsteren and Rein 1985). But all countries that embrace principles of solidarity in any of their many variations as the principle for organizing public pensions have become transformed, with paradoxical results. '[S]olidarity . . . evolved towards its own negation, that is, towards both privatization and equivalence' (van Gunsteren and Rein 1985, p. 132). Over time, The Netherlands, Britain and Sweden all evolved a well-developed system of private occupational pensions, imposing a rough equivalence between earnings-related contributions and earnings-related benefits, to supplement their flat-rate benefit systems. It would thus appear that solidarity pension systems not only have a natural tendency (a 'special vulnerability', as Myles and Pierson [1997] put it) toward income testing. They also have a natural tendency to the creation of private pillars as well.

When a country starts with a so-called 'universal' approach, it has various evolutionary paths open to it. In some countries (such as France) the money for universal programmes (such as children's allowances or lone-parent allowances) comes from employer and employee contributions rather than from general revenues; and policy dynamics in these cases take a correspondingly different form. But when universal programmes are financed from taxes, cost is likely to be visible, high and blamed on the political actors who supported the programme. If benefits are to be adequate, the cost will be even higher.

How do governments then respond? In practice, they try to make creative use of the components of programme design sketched above. One response might be 'selective entitlement', as exemplified by the Swedish 40-year rule for the basic pension, effectively reducing its 'universality'. Another response, similar to the cases listed above, is to limit entitlement to low-income families – which entails imposing a test of need, as in the case of the French API for lone parents (Portonniere 1998, Vol. 1, p. 31). This illustrates the slide from universal to means-tested benefits.

A very different response is to link the universal pension to contributory earning-related public social insurance. This is the route followed by Sweden (ATP) and Britain (SERPS). The Netherlands chose a variant on that scheme, supplementing its basic pension by both mandating and creating tax incentives to increase the coverage of contractual occupational pensions. Today, 91 per cent of the population are covered by private occupational pensions.

In Britain, SERPS never provided adequate earning-related benefits, however (Atkinson 1995). What then did Britain do? Under Conservative governments, it reached first toward supporting occupational pensions (as in The Netherlands). The government then changed course and moved towards individual personal accounts purchased in the market. How then did the new Labour government respond? In October 1998 the Blair government decided not to provide incentives for firms to create occupational pensions, nor to subsidize individual accounts for everyone, in an effort to

rescue the ailing SERPS programme. Instead, it chose to increase both incentive to save and to increase the value of means-tested benefits.

The Blair government's Stakeholder Capitalism was supposed to ensure self-sufficiency in later life by getting workers in lower-income groups to purchase private pensions. But in reaction to a pension revolt, the Chancellor announced a big increase in the value of the means-tested minimum income guarantee (MIG). In the future, MIG will be linked to a new 'pension credit', which allows pensioners to keep more of the income from savings and private pensions. 'Both the MIG and the pension savings credit will be linked to earnings, so they will become more and more valuable in relation to the basic state pension' ('Flawed Pension Policy', *Economist*, 7 April 2001, pp. 41–2). The overall effect is to make it less worthwhile for the target group of people with modest income to invest in the stakeholder pensions. Workers in the future would have to save more and more income to exceed the more generous means-tested benefits. Meeting current need thus has the perverse effect of creating a disincentive to invest in private pensions.

Here we have examples (some successful, others less so) of how universal pensions become gradually linked to other components of the state's repertoire, such as contributory insurance or means testing. Governments can in these ways choose to link universal benefits to the market-based pillar through occupational or personal accounts.

Evolutionary dynamics within social insurance

If we start our story with regimes dominated by earning-related social insurance rather than universal benefits we see different evolutionary patterns emerging.

Germany and the United States are prototypes of countries that started with social insurance rather than universal programmes. The German story is one of the development of occupational pensions for public officials who were not classed as *Beamten* (civil servants). The struggle was over equity among public sector employees: civil servants did not have to contribute toward their pensions, which furthermore were more generous than those received by other public employees. Supplementary occupational pensions were eventually introduced, leading to more equity among government employees. But the system did not spread widely to the rest of the population for quite some time.

In America, vigorous debate still surrounds the case for introducing individual accounts into the public social security programme, thus letting the design of the public programme be influenced by the private pension experience. This controversy takes place against a background where contractual or voluntary firm-based insurance declined in the last decade from 55 per cent coverage to 40 per cent. A hybrid form of 401(k) programmes has emerged which represents a cross between occupational pensions and

individual accounts in the sense that the programme needs to be created by the employer, even if it does not contribute to the scheme (Culter 1996).

SHIFTING THE MIX OF PILLARS

In addition to those self-conscious efforts at 'redesigning' welfare states regimes by finding novel or hybrid combinations of regimes and pillars, there are also moves afoot simply to shift the mix of pillars. Sometimes that reflects an intentional shift in public policy; other times it is an unintended consequence of broader social developments. But the effect, whether intended or not, is to shift responsibility from one pillar to another, thus altering the mix.

The pillar approach, as we have said, takes as central the question of who pays and who provides. An effort to shift responsibilities across pillars can thus be interpreted within the pay/provide framework. In what follows, we consider in turn efforts by the state to get the family pillar both to pay and provide, and then efforts by the state to get the market pillar to pay and provide. This is a complicated story of gaming, because there are typically counter-efforts within the other pillars to reshuffle the costs, typically back to the state; but since our purposes here are purely illustrative, we will allude to only a few of these further complications. Finally, we consider those efforts to build a multi-pillar system and the conflicts and opportunities these efforts create.

Shifting burdens to the family

The 'welfare to work' reforms at the core of the 1996 American welfare reforms constitute one clear example of this shift of welfare responsibilities from the state to the family pillar (Burtless, Weaver and Wiener 1997). Under those reforms, teenaged mothers can no longer receive welfare grants while maintaining an independent household; they must instead reside with a parent or legal guardian. The elements of those reforms designed to 'make fathers pay', rather than letting their illegitimate children live as wards of the state, constitute another important attempt to shift welfare responsibilities from the state to the family (Ellwood 1988; Bane and Ellwood 1994).

Consider, further, the issues surrounding the caring functions – care for children and care for the aged. The obligation to pay for and care for aged parents has been a two-way process, as responsibilities are also transferred from the family to the state and back again, from state to the family and the market (Korpi 1995; Gibson 1998, Ch. 1). Aged parents who cannot function on their own are increasingly being served in nursing homes. In the US, two-thirds of nursing homes are managed by for-profit organizations, but funding comes predominantly from a public programme (Medicaid), eligibility for which requires that the individual reduce their assets. In Australia, similarly, there was a doubling of nursing home beds over the 1960s, as private-for-profit operators were tempted by the recurrent subsidy from

the state to regard nursing homes as low-risk, high-return ventures (Gibson 1998, p. 30). The more general point is that, in all these situations, the market provides and the state pays for the service.

But what then is the role of the adult children in paying for or caring for their aged parents? Some have argued that the major beneficiary of social security were the middle class, who could now rely on the state to pay social security cash transfers to their aged parents. Abortive attempts in Australia and elsewhere to make nursing home patients pay a large part of the costs of care which were previously much more publicly subsidized constitute a clear attempt to shift welfare responsibilities from the state to the family. Policy in the service and caring functions is still evolving in most mature welfare states, since the tension persists, with public policy seeking to shift the pay-provide mix back to the family or to the market.

Similar issues arise in child care and child support. This area of public policy has witnessed turbulent changes in the last decade, with efforts to enforce the principle that non-custodial fathers should pay child support. In 28 states of the United States, all child support is paid to the government rather than to the custodial family. (Previously, the first \$50 of child support was passed through to the family, but even that has now changed with the 1996 welfare reforms.) This is a clear effort to shift the 'who pays?' question from the state to the family. But it also raises difficult questions about how to apportion a father's responsibilities for supporting the family he left and the family with which he now lives.

In the area of child-care, the proper mix of market, state and family is still unfolding. The state could play a larger role if it lowered the age of compulsory education or made public kindergartens and early childhood care available on a voluntary basis (as is common practice in France). The market, and more specifically firms or non-profit organizations, could substantially expand child care provision (with perhaps alterations in the 'who pays?' mix). Child care could be considered a subsidized occupational fringe benefit or a responsibility to be met by the parents in the fees they pay for the service, or by state subsidies, or by a combination of all of the above. The state could also pay for some family members to care for a child in their own home.

These dynamics unfold in the context of the widely-recognized phenomenon of the 'marketization of family functions'. Among women in general and wives in particular, there has been a marked shift from working without pay in the home (performing household tasks without compensation), to working in the market for wages (sometimes performing tasks analogous to those previously performed without pay in the home). Accompanying this shift in the labour force participation of married women with young children, there is also the marketization of other family functions. It is hard to grasp how widespread this change has been. As late as the 1950s clothing was still often made at home; it is now almost uniformly purchased in the market. Even food, which is still largely cooked at home,

is increasingly also purchased in restaurants as families eat out more often or consume more processed forms that require less finishing at home.

This process of marketization – combined in the US with a robust economy and welfare reform – has contributed to a remarkable increase in the ‘participation and preparation index’, which describes the economic and educational activities of mothers with children under age 6. In 1999, mothers who were either in the labour force or at full-time schooling increased to over 70 per cent for never married and widowed, divorced and separated women. In contrast, the rates for married women has remained stable at about 60 per cent (Blank 2000, Table 2, p. 5).

Across all these examples, the unresolved policy question is how the marketization of family functions should be managed in the future? What position should public policy take on this issue? It could seek to undo the trend toward marketization. Sometimes a country does this when market conditions lead to the need to ration scarce jobs. This was done in the past in Switzerland: when recession struck and unemployment rates became unusually high, the state decided to limit jobs to male nationals as a matter of public policy; this meant limiting immigration and forcing women to leave work and return to the family. Alternatively, public policy could try to reinforce rather undo the marketization trend. The reform of American welfare policy has moved in this direction by imposing time limits on state transfers and promoting a policy of ‘work comes first’.

State efforts to get the market to pay or provide

Where unemployment is low and wages are high there is little need for the state to supplement market earnings with public benefits (Goodin and Le Grand 1987, Ch. 10). That was arguably the case in Australia in its heyday as a ‘wage-earner’s welfare state’ (Macintyre 1985, Ch. 3; Castles 1985). Elsewhere, the wage scale is adjusted to take account of family obligations. In Germany for example, wages rates are higher for married men with young families. The origins for this practice may have been grounded in contractual agreements or state initiative, or a combination of both; but whatever its origins, the upshot is that workers with several children could benefit substantially from this practice.

A more common practice is for the government simply to mandate that the firm pay for benefits, like the first several weeks of sick benefits, thus reducing the state’s financial obligations. That is what was done in the 1987 Dutch reforms, and it has been extended since. President Clinton’s abortive efforts in America at health reform would similarly have passed on the costs of providing health care to the firm. (This is merely an extension of what already happens without mandates, of course: more than two-thirds of total US health expenditure is already borne by private sector firms, according the series on health expenditures regularly published in the *Social Security Bulletin*.)

Sometimes the interaction between state and market takes quite different

forms. Private nursing homes are examples where the state pays and the market provides. In other situations, the state contracts with the market and non-profit sectors to purchase services on behalf of clients for whom the state is responsible. But when the state contracts or buys such services it has to be publicly accountable; the state has to make sure that it actually gets what it pays for. Thus, broadening the indirect role of the state also means deepening its oversight and regulatory role.

At the same time as the state is trying to shift cost to the other pillars, of course, the market and the family are doing the same thing in reverse. The growth of early retirement and the expansion of the disability and unemployment system is a testament to the vigorous effort on the part of the firms to shift costs onto the state. The German government actually sued the firms responsible in an effort to retrieve its lost revenue. The state won the case, but since it could not identify the amounts involved (this required knowledge of individual cases) the state was forced to accept a nominal settlement, while the practice continued (Schon and Rein 1994).

Putting the pillars together: multi-pillar strategies

While many contemporary efforts at reforming welfare states amount to novel ways of combining regimes and pillars, many others amount to novel combinations *within* and *among* pillars.

Consider first combinations within pillars. Pillars, as we have said, provide answers to two questions: 'who pays?' and 'who provides?'. Typically, both those questions tend to be answered in the same way. Where the state pays then the state should provide as well (albeit perhaps some different part of the state: that was the point of the 'purchaser/provider split' and the 'internal market' thereby built into the British health and social security system in the early 1990s [Glennester 1992; Le Grand and Bartlett 1993]).

It is perfectly possible to give different answers to those two questions of 'who pays?' and 'who provides?', however. Private child care is one clear example, paid for by the family (sometimes with state subsidies or rebates) but provided by the market. The Australian Child Support Agency (modelled on Wisconsin precedents, imitated less successfully in Britain) involves a similar composite of pillars, with non-custodial members of the family making payments through the state, which passes them on to custodial parents in turn. More dramatically still, under the US Family Support Act of 1988 and the 1996 welfare reforms, welfare mothers are required to reassign their child-support claims to the state, which would then pursue negligent fathers; and when the state collects required child-support claims from the father, it reduces the size of the welfare grant to the mother, who receives no net increase in income. Or for another sort of example, consider how many of the services provided by the voluntary non-profit sector are paid for by state subventions: the proportions of total revenue non-profits derived from public sector payments around the 1990s varied from 26 per

cent in Sweden to 59 per cent in France and 58 per cent in Germany (Scherer 1997, p. 54).

Combinations within pillars can pose risks; these are particularly acute with the 'state pillar pays, non-state pillars provide' combination. There, the state contracts out welfare services to non-state providers, who have purposes and preferences which are potentially at considerable odds with those of the state in sponsoring and funding the welfare benefits that those contractors are supposed to providing on its behalf.

Monitoring is always imperfect, and people with purposes of their own will always serve their own purposes rather than those of the programme sponsor, where they can do so unobserved. Where the contractors are commercial for-profit agencies, those have an incentive to make money at the expense of the programme's intended beneficiaries; where contractors are not-for-profits, they have other goals of their own, deriving from whatever particular non-pecuniary interest (religious, ideological or whatever) that they have in the activity.

Those are issues which arise in combinations within pillars. Consider next combinations among pillars – that is to say, using multiple different pillars alongside one another. Just as stockbrokers advise us to diversify our portfolios, so too is it conventionally regarded as prudent for people to diversify insofar as possible their potential sources of social support. From the personal point of view, it is obviously better to have your pension funds partly in the state sector and partly in some private fund financed by the firm with which you are employed, and to have both of these sources augmented by voluntary personal savings. Better to have a differentiated income package than to rely solely on income from any single source: then when one income source is threatened, the other sources can act as offsets, thereby ensuring you a stable income stream.

That general truism is particularly apt in the case of pensions. Different types of pensions embody different benefit formulas, which in turn depend on different risk variables. The big risk variable in individual accounts is the interest rate; in earning-related social security programmes, the big risk variable is the rate of growth of the average wage. Since the interest rate is not highly correlated with the other risk variables, there will be individual gains from diversification.

This simple view of diversification of risk can be more complicated when certain combinations among and within pillars are inherently unstable. For example, you cannot have government paying and private agencies providing, if that effectively amounts to giving private providers a blank cheque (or even a substantially paddable expense account) against the government's budget. You cannot have parallel public and private schemes if that invites adverse selection as the better off opt out and the public pool is left with the dregs. (Of course, those who favour pension reforms want to argue the opposite – that a multi-pillar system will increase labour market efficiency, mobilization of long-term saving and financial market develop-

ments that will cumulatively lead to economic growth. But there are always costs, in particular high administrative cost and restrictions on financial market flexibility and market volatility.)

Where the state pillar is the only one or nearly the only one – so everyone has to rely upon it and, furthermore, everyone has some reasonable chance of needing something from it – there is political pressure for the benefits provided by that sector to be adequate in relation to the average person's anticipatable needs. When costs rise there is pressure to move in the opposite direction. One way to resolve the tension is instead to offer people an option of supplementing or contracting for their own needs privately within the market pillar; thus the pressure (political, perhaps, as well as financial) on the state pillar may be reduced.

A multi-pillar system thus invariably raises the issue of the interdependence of the public and private spheres. It is inherent in exit-voice dynamics that there is less pressure on the state to keep benefits high once people have other options to protect themselves in the private market; and the existence of non-state options alongside the state pillar inevitably undercuts the state pillar. But the multiple tiers can also function in such a way as to be mutually reinforcing, strengthening each other and enhancing income security through income packaging of the diverse and multiple income sources.

PENSION POLITICS: A CASE IN POINT

This possibility of either combining or offsetting pillars is aptly illustrated in contemporary public debates over cash transfers and income support for old age. But the issue also serves analytically to highlight two different approaches to the multi-pillar strategy that are especially relevant to the distinctions we have drawn between pillars and regimes.

One view, underlying the position taken by the World Bank, is that each pillar performs a different function and has a unique structure that is most efficient in the performance of that function. The contrasting view holds that the multiple pillars perform the same function (namely, the allocation of income over the life cycle) but offer different ways of paying and providing for income at the last stage of the working career, and these 'different ways of financing . . . allow for the diversification of risk' (Choln *et al.* 2000 p. 35). In other words, if the income package is derived from multiple pillars, each can substitute for each other, should any one of the pillars be reduced.

This difference between the functional versus diversification approaches has its parallel in the regime/pillar dichotomy. Regimes, after all, serve different functions (as evident in the principle of conditionality underlying the regime logic of assigning different benefits to citizens, workers and the poor). A pillar approach, by contrast, stresses the diversity of systems of financing and providing of benefits, thus yielding both more security and more complexity.

Consider how the underlying logic looks when the point of departure is the functions to be performed and the agents and the institutional structure required to carry out these functions. The World Bank (1994, Chs 1, 7) identifies three functions. The first is a flat-rate, minimum benefit to serve as a safety net. The state is the only appropriate institution to perform this function. Second are mandatory saving programmes. These are typically paid for by individual contributions. But they could be provided in the market (in the example of contractual occupational pensions) or by the state (in the conventional, non-funded, pay-as-you-go defined benefit programmes financed from payroll taxes, where the present generation pays for the benefits received by the future generation). What is at issue here in the public debate is whether this should be radically transformed into a fully-funded scheme, whose assets are managed privately and competitively through market institutions and whose benefits depend on the available assets in the funded scheme – thus linking benefits to contributions, rather than pre-set as some ratio of past earning (a 'defined benefit'). Third is the function of voluntary saving and annuities, designed to supplement the income of people who want to have the opportunity for higher consumption in their old age. Here individuals and families are responsible for investing their savings on their own or through a manager whose services they purchase from the market. A multi-pillar system assumes that each of these functions should be carried out by specific, and different, institutional agents: the state, the firm and market and the individual/family.

An enormous body of literature has emerged over the exportability of these ideas about how these different functions should be adapted for other countries (Hemerijck and Visser 2001). What has emerged from this debate is the recognition that there are many variations of a multi-pillar approach. One is a Chilean model of mandated, fully-funded plans, chosen by individuals but managed by pension fund management companies. In response to the growing recognition of the weakness of this model, there has been a 'blossoming innovation in reform of mandatory pension provision with an upsurge of ideas for creating financially sustainable mandatory public systems' (Fox and Palmer 2000, p. 3). Yet no country has exactly copied the Chilean system. Some countries have actually replaced their public social security system with a wholly privatized system; other countries have adapted the different strategy of adding an additional tier to the public system (Eritzer 2000).

Two other European models are now widely recognized as alternative approaches: Switzerland's mandate that private firms provide occupational pensions; and Sweden's reform of public earnings-related social security into a notional (unfunded) pay-as-you-go defined contribution programme topped up by a funded personal-account pillar wherein investments are chosen by the individual. These three multi-pillar models compete for dominance in the international scene.

This debate has been crystallized around the positions of two sets of

international organizations: the World Bank and the IMF, on the one hand, and on the other hand the ILO and the European Union (through the Phare Technical Assistance Program, created to give advice to countries interested in promoting reform of their social security system). This is a story of the three pillars in a global perspective, viewed through the lens of the mandate of these international organizations.

CONCLUSION

The complex evolutionary dynamics we thus see so clearly at work in contemporary welfare states represent the interplay of both regimes and pillars in shifting combinations. Earlier analyses of welfare regimes alone tended to conflate the two. Our argument has been that regimes and pillars are separable, analytically, and that they politically admit of many different combinations and recombinations.

All the welfare reforms recently contemplated or implemented seem to us to represent instances of precisely this mixing and matching, blending and blurring of different pillars and different regime types. All this activity on the 'off diagonal' – contrary to the 'natural affinities' – seems to us to be driving the evolution of contemporary welfare states.

In response to the question of 'in what direction are welfare societies moving?' no single coherent argument has emerged, because the very quest for coherence is misguided. That is to say, it is a mistake to suppose that a society can be described as being guided by any single, unified principle. Instead, empirical pragmatism teaches us that the combination of regimes and pillars in public policy is different, both over the lifecourse and across functional domains, within any given regime. In most countries, pension reform at the last stage of the working career is largely a story of the mixing of pillars in multi-pillar hybrids; welfare reform for the young unemployed and lone mothers is largely about reconstituting and blurring of the principles underlying regimes. The reform domains that focus on the mix of caring, rehabilitative and regulative service present yet a different set of issues, as the debate over health care clearly illustrates. In short, there is no single model to fit the variety of functional domains and stages of the lifecourse in modern capitalist economies.

Neither is there necessarily any unified story to be told for welfare regimes across time. Starting 'here', a country tends over time to end up 'elsewhere'. The blurring of regimes and the mixing of pillars is a normal process in the evolution of the welfare state. At the centre of this evolution is the question of the interdependence of public regimes and the multiple pillars, which are seen as the main sphere of society; but choice among the variety of forms that pillars can take may depend on whether a multi-pillar view is conceptualized in a functional or diversification perspective. In short, static models of the welfare state must yield to a more dynamic evolutionary approach to social policy, taking full account of all the various

engines of change to pillars and regimes alike. Giving some sense of these dynamic possibilities has been our main focus.

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STEPPING OUT: RHETORICAL DEVICES AND CULTURE CHANGE MANAGEMENT IN THE UK CIVIL SERVICE

AMANDA DRISCOLL AND JONATHAN MORRIS

Organizational culture is the pattern of values and beliefs held by members of an organization and the management of culture is now one of the most frequently discussed of all organizational concepts. The excitement associated with culture is attributable to two factors. First, it is argued that culture is the key to organizational performance; simply stated, a strong organizational culture can be a source of competitive advantage. Second, culture is perceived as an alternative method of control to traditional and technocratic forms of management and can be manipulated to ensure that employees are enthusiastic and committed to organizational objectives.

Despite the extensive interest in this topic, culture remains an elusive concept. This paper investigates the nature of culture and considers strategies for introducing cultural change. Specifically, the aims of the paper are threefold. First, to locate and explain the interests and significance of culture change for the public sector. Second, using a case study of a newly created agency, to investigate the problems and issues affecting cultural change in the civil service. Third, to reassess and critically evaluate the claims for culture management made in the literature. Finally, this paper questions some of the assumptions in the literature, which with few exceptions are biased toward top management and the unitary conception of organization, an ideological frame of reference which is particularly problematic in the public sector.

INTRODUCTION

Organizational culture, and its transformation, has become central to the lexicon of popular management theory. In order to refocus business orientation, organizations had to change to more customer-focused, service focused, flexible cultures. In short, it became both a panacea for many organizations and their key to competitive advantage and as such became a cornerstone of the approaches to managing people and particularly the new human resource management model.

Emanating from the USA, and to a lesser extent from Japan, culture arose out of the 'excellence' literature and was quickly disseminated to the UK and embraced by some large UK private sector organizations where it resonated with notions of the enterprise culture. Unsurprisingly, it was also embraced by public service reformists who saw it as a vehicle, via the 'new public management', to shift public service provision from a stable bureaucratic-hierarchy form to a more fluid customer-orientated one.

Despite the fervour for organizational culture and its transformational

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quality in the popular literature, the reality is more ambivalent. Organizational culture is a contested terrain in that not only are definitions of what it is somewhat fuzzy, but the ability to easily change it is extremely debatable. To this end, this paper analyses the concept of organizational culture and attempts to transform it in individual settings before discussing its application to the public sector in the UK and, specifically, to the civil service. It then proceeds to a case study of organizational culture change in a 'Next Steps' civil service group, 'Steppers'.

CULTURE CHANGE

The management of culture has dominated the attention of senior executives in both private and public sector organizations, particularly since the mid-1980s (Anthony 1994). As Storey (1992, p. 13) notes: 'the near ubiquity of managing a culture change is surely one of the most remarkable features of management thinking in the 1980's and early 1990's'.

Culture is believed to provide the key to a commitment to excellence from which will follow organizational success, survival and profit. Management of culture and cultural transformation of large-scale businesses is the skill, purportedly, on which modern management rests (Reed 1996, p. 149). As Ferlie *et al.* (1996) note, much of the literature suggests that, in a situation of major organizational change (for example, public sector shifts to a more market and commercial-based orientation), such change is problematic or unsustainable unless the underlying values and belief systems of the organizational members (i.e. the culture) undergo a similar change.

Moreover, while the literature has diminished somewhat (perhaps reflecting a change in management 'fashion'), it is nevertheless an important part of the transformational change literature (Harris 1996; Harris and Ogbonna 1999; Ogbonna and Harris 1998). One writer, Armstrong (1992, p. 19) has gone so far as to suggest that: 'the acceptance of HRM in the UK and elsewhere has been accelerated by the message on the significance of corporate culture and the need to manage change delivered by American gurus'. While Ogbonna (1992) contends: 'one of the key aspects of HRM is its association with the creation and maintenance of a strong organizational culture'. Culture, it is argued, is a fundamental determinant of employee behaviour and commitment.

As Ogbonna and Harris (1998) indicate, the culture literature is broadly subdivided into three streams. First, there is a literature which argues that culture can be managed and thus directed and controlled. This is typified by the 'excellence' authors (Deal and Kennedy 1982; Ouchi 1981; Peters 1993), but also by a wider literature of cultural change (Bate 1994; Brown 1995; Bowman and Faulkner 1997; Kotter 1995; Kotter and Hesketh 1992). Second, there is a stream of literature which argues against culture management, suggesting that culture may possibly be manipulated (Martin 1985). Third, and closely related to the second, are those who argue that while

culture exists and changes, such change is beyond management or manipulation. Pettigrew (1990), for example, questions not only the utility of the concept but the extent to which management can influence culture, while Handy (1995) also argues that while culture change is routine in organizations, it is impossible to manipulate (see also Anthony 1994; Du Gay and Salaman 1992; Hope and Hendry 1995; Legge 1994; Ogbonna 1992; Watson 1994). One argument to emerge from this 'critical' stream of literature, and one which is relevant to the later case study, is that organizations are attempting to introduce culture management as a substitute for traditional technocratic forms of bureaucratic control (Anthony 1994; Hoggett 1996; Hope and Hendry 1995; Legge 1994).

While not immersing the argument in the depths of the culture literature, it is worth, in the context of the later case study, viewing organizational culture as stratified and segmented in two different ways. The first level of segmentation was addressed by both Schein (1985) and Kotter and Hesketh (1992). Both approaches identify two operational levels of culture as being 'behaviour and artefacts' and 'beliefs and values'. Artefacts and behaviour are fairly tangible – for example, job titles, dress, rules and language – and can be changed with relative ease. Beliefs and values can be harder to access but are explicit enough to be discussed and changed, part of the 'cognitive superstructure'. Values relate to moral and ethical codes whereas beliefs relate to what people think – both may be based on prejudice and stereotype. Schein, however, adds a third level, which is often the hardest to discern and deal with as it concerns issues such as human nature, human activity and human relationships which are shared unconsciously in a taken-for-granted fashion and are therefore not readily recognized by those who hold them; nor are they easily changed. Such 'underlying' assumptions are deep rooted and implicit (Brown 1995).

A second level of segmentation is put forward by Schein (1995) and Ogbonna and Harris (1998). Schein argues that three broad subcultures emerge within organizations which follow, broadly, hierarchical and functional lines. Again this is relevant to the case study in this paper in that a central argument will be that the culture change management programme at 'Steppers' has not permeated much below the senior management level. Schein identifies three 'occupational' cultures as the sub-cultures of chief executive officers, of engineers and of operators. Furthermore, Schein argues that each is 'valid' from its own viewpoint and that in order to create 'alignment', mutual understanding is necessary through integration. As he contests (see also Kotter 1995): 'Instead of superficially manipulating a few priorities and calling that culture change, we must recognise and accept how deeply embedded the shared, tacit, assumptions of executives, engineers and employees are'.

Ferlie *et al.* (1996) have addressed the issue of culture change in two segments of the public sector, health and education. Despite considerable, government-led efforts to effect cultural change in the two sectors, they

conclude that the impact has been minimal. In health, for example, while they acknowledge that some changes are evident, driven by the contract system and an acceptance by both professionals and managers that change was necessary, they argue that competition and the market ethos are not greatly valued and as such the new culture is not well embedded. In education, Ferlie *et al.* conclude that the situation is somewhat different. There have been significant changes, including an increase in 'reputation management', a power shift from LEAs to schools (and hence to head teachers), an exercise of choice by parents and corresponding response from schools, an increased role for governors and a growing managerialism involving contract management. However, they also conclude that there are marked differences in attitudes to change between head teachers and the rest of the staff.

More recently, and of particular relevance to this paper, Foster and Hoggett (1999) published a study of change in The Benefits Agency. Within this group they found a managerial regime which clearly embodies the principles of the new public management, but operators who were prone to an intensification of labour and for whom the cultural messages sent by the new public management were contradictory and confusing. The twin messages of 'valuing your staff' and 'market testing' are one example.

The public sector: a need for cultural reform?

If behavioural change requires a change in organizational culture (Lundy and Cowling 1996) then the public sector might be in need of a 'cultural revolution'. The election in 1979 of the Thatcher government marked a turning point in the debate about the role of government, how to run the public services, how to reduce expenditure, and how to reduce bureaucracy (Drewry and Butcher 1988).

Underlying these aims were a number of assumptions and ideological beliefs which influenced the decisions that governments subsequently took. These included the notion that public sector organizations were unresponsive bureaucracies; that the public sector was too large; that management is superior to administration; that management in the private sector is superior to the public sector and should thus be the model and the belief that the culture of the public sector had to be changed to an entrepreneurial one (Hoggett 1996; Hood 1991; Lawton and Rose 1991; Metcalfe and Richards 1990; Pollitt 1990). Moreover, while the New Labour administration has changed some of the tenor of the debate, the trajectory is broadly similar (Gray and Jenkins 2000).

That there has been considerable change in the way in which public services have been organized and managed since 1979 is uncontested (Flynn 1990; Stewart and Walsh 1992), although what is contested is the extent (Farrell and Morris 2001). First, the landscape of government has changed in an attempt to 'hollow-out' the state (Rhodes 1997) through privatization, quasi privatization and contracting-out services. Second, a wide range of

methods and techniques have been used to reform the provision of public services, ensure greater efficiency, value for money and responsiveness to public needs (Butler 1993; Lawton and Rose 1991; Power 1997; Walsh *et al.* 1997).

The main culture shift can be described as an attempt to make public sector organizations less bureaucratic and more entrepreneurial. The rationale for this was the enterprise culture and the discourse of enterprise which permeated organizations and management during the 1980s and which suggested that there was a serious misalignment between the cultural imperatives of enterprise and bureaucratic administration (Legge 1995). As Osborne and Gaebler (1992, p. 15) explain: 'in this environment bureaucratic institutions, public and private, increasingly fail us'.

The *modus operandi* to achieve the cultural transformation was found in the new public management (NPM), providing dynamic organization cultures (Hogwood and Peters 1995; Osborne and Gaebler 1992; Sadler 1988). This was not, however, about the more prosaic technological or structural reforms. The discourse of enterprise called for a radical process of attitudinal and behavioural restructuring too (Reed 1996).

Attempts were made to shift the public sector from an administrative to a managerial culture within which public services would be re-orientated towards either a marketplace or a client culture (Bryman 1989; Colville and Packman 1996; Wilson and Doig 1996), to form the heart of both rhetoric and practice of transforming the public sector (Newman 1994). However, the prevailing culture of the public sector might well neutralize and frustrate such reforms (Mabey and Salaman 1995) and recent organizational studies have questioned if corporate culture change is relevant for the organizations of the 1990s (Hope and Hendry 1995).

The civil service has not been immune from the forces of change since 1979, and although there are differences of opinion whether these changes can be described as incrementalist or revolutionary, there is no doubt they have had a major impact on both the nature and organization of the service (Corby 1998; Fry 1988; Hood 1998; Horton 1993, 1997; Talbot 1997).

A range of initiatives and structural changes have been embraced, with varying degrees of success, under the broad motif of 'entrepreneurial government' or NPM (Hoggett 1996; Rhodes 1997). These were designed to imbue the civil service with private sector values. Such private sector values would thus induce more consumer-friendly attitudes and greater accountability, regulation and efficiency. They would be driven by culture change management programmes, by decentralization and by changes to human resource management policies (Richards and Rodrigues 1993). While a variety of initiatives were introduced within the UKCS between 1980 and the mid-1990s, five are prominent:

1. the Rayner scrutinies, aimed at improving efficiency via small teams;

2. the Financial Management Initiative (1982), aimed at decentralizing bureaucratic administration via accountable cost centres;
3. Next Steps, which led to certain civil service functions becoming 'agencies' within departments with a purchaser-provider split;
4. the 1991 Citizen's Charter with output orientation;
5. the Competing for Quality Initiative (Market Testing), which required departments to competitively tender for certain services.

While the lexicon of civil service reform has changed somewhat post-1997, the trajectory is broadly similar (Gray and Jenkins 2000), albeit that 'joined-up' administration/government became the new clarion call. That these measures have impacted upon the working of civil service departments and individual civil servants is undisputed. However, while certain commentators have viewed the changes as revolutionary (Horton 1997), others are more cautionary, arguing for a more critical analysis of the rhetoric of change (Corby 1998; Talbot 1997). Moreover, change does not necessarily permeate below top management levels (Brooks and Bate 1994; Corby 1997; Foster and Hoggett 1999).

Much of the change taking place in the civil service can be understood as an attempt to move beyond the principles of classical Weberian bureaucracy on which central government departments were based (Colville and Packman 1996). Initially this was by means of targeting efficiency gains and value for money, but later by changing the culture of Whitehall (Dynes and Walker 1995; Richards and Rodrigues 1993). Early initiatives such as the Rayner scrutinies and the Financial Management Initiative suffered a patchiness and slowness of implementation and did not produce the degree of change required (Bryman 1989; Gray *et al.* 1991; Wilson and Doig 1996). Indeed, the impact of these innovations on the culture of the civil service appear to have been very limited (Carter and Greer 1993; Horton 1993).

However, the 'sea change' associated with Next Steps did bring about a change in culture (Brooks and Bate 1994; Richard and Rodrigues 1993; Lawton and Rose 1991). As a result of this initiative, entrepreneurial norms and techniques were definitely introduced into the civil service (Dynes and Walker 1995). Purportedly, the bureaucratic ethos of the civil service has been changed, decaying bureaucracies have been dismantled and the organizational staff have been remoulded and reborn by the cultural revolution, although this scenario is contested (Corby 1998; Hood 1998; Talbot 1996, 1997).

A change in central government in 1997 did little to alter the trajectory of change. Indeed, if anything, there was a renewed attempt to change management culture in the civil service and, arising from the *Modernising Government* White Paper, reinforcing performance measurement and regulation and promoting 'joined-up' government (Gray and Jenkins 2000).

CULTURE CHANGE MANAGEMENT AT 'STEPPERS'

Research background

In order to address the type of culture change in the civil service and its nature, depth and outcomes, this section describes and analyses such issues through an examination of 'Steppers', a Next Step Agency. Smircich (1983) argues that for the study of organizational culture, three types of research methodologies are appropriate, including interviews, participation and observation. All three were utilized in this study. First, mission statements, official reports, staff attitude surveys and external management consultants' reports were analysed. Second, a total of 40 detailed interviews were conducted with a variety of employees, picked on a stratified sample basis, from each level of the organization. The interviews, which averaged one-and-a-half hours, were semi-structured. The use of interviews within a case study methodology provides the rich data necessary for a study of organizational change (Eisenhardt, 1989; Hartley, 1994). Finally, detailed observation was undertaken of meetings, internal presentations and training programmes (see Watson 1995). A principal aim of this research was to consider whether structural change via the creation of decentralized 'agencies', as recommended by the Ibbs Report (1987), has delivered the expected cultural change seen as necessary to improving the management and performance of government business.

'Steppers' was created as a separate government department in 1989 and became an executive agency two years later with a budget of £42 million and 1300 staff. Split between two sites, one in London and one in the provinces, 71 per cent of staff are employed in the latter. The age profile of staff is relatively young, with 65 per cent in the 25–44 age group. Staff at the London location, however, tend to be better educated (over a half are degree-level educated). Although 50 per cent are female, males are over-represented at higher grades (executive officer and above). Nine percent of staff are employed on part-time contracts and these are overwhelmingly female and predominantly found in the provincial location.

Culturally, Steppers is hierarchical and bureaucratic, and fits Handy's (1985) 'role culture' with strong functional areas, a high degree of formalization and standardization, work activities are governed by procedures, rules and regulations together with job descriptions allocated to posts with commensurate authority and positional power. The organization has defined roles, centralized control, and administrative management with an emphasis on procedures: 'There was little scope for personal initiative in the work, we were a paper factory following rigid rules on how the job had to be done' (Senior Manager).

Another interviewee confirmed this: 'We were conditioned to look inward, conditioned to be cautious, we conformed to the procedures and just got on with our jobs'. Adherence to formalized procedure, technicism

and conservatism was the order of the day, the culture was bureaucratic and administrative.

Steppers was exposed to 'new managerialism' and the enterprise culture as part of a drive for efficiency, effectiveness and economy. Along with a range of changes to structures and systems and attempts to change the culture, the organization shifted: 'to a more flexible, organic structure, more customer rather than producer oriented with a more open attitude to controlled risk taking' (Senior Manager).

Aspects of a cultural change which have been put in place at Steppers included new information technology, a flatter management structure, human resource management (HRM) developments, such as empowerment, individual performance-related pay (linked to staff appraisal), team-working and changes in work processes together with a specific programme known as the leadership and management programme (LMP) intended to implement and embed changing culture and values.

In addition to the authors' interviews, two Steppers surveys were commissioned; a survey of senior staff, by consultants in 1993, assessed the organizational climate and concluded that Steppers was essentially non-adaptive, mechanistic and inflexible, and lacked commercial-orientation. Many senior managers described the organization as 'the machine'. In 1994, an annual Steppers Staff Perception Survey was conducted in order to provide information about staff perceptions of the organization and to measure changes over time. The 1995 survey results showed the biggest 'positive' change for the organization as a whole and in individual work areas had been improvement in communications.

During interviews with staff it was felt that the stimulus for change had come from two different sources, one external and one internal. The dominant external change agent, identified by staff interviewed, was seen to be government with its aim to drive down costs and at the same time increase efficiency and effectiveness in service provision. It was generally felt that these changes were being imposed on Steppers and its staff in a number of areas, for example, the introduction of performance-related pay, decentralized pay delegation, devolved personnel management, market testing and an increased customer focus. Many of these were in line with the changes that have occurred throughout the public sector, with an approach to change which was top/down, and focused on the basis of structural and system changes. This concurs with other evidence conducted elsewhere into the civil service (Brook and Bate 1994; Foster and Hoggett 1999; Talbot 1994).

The primary internal change agent was provided by the new LMP training programme designed to 'achieve major changes in (Steppers) organizational culture, and to move away from the traditional hierarchical structure to a more participative and interactive culture' (LMP Document). This training programme emphasized the need to create effective leadership and management at all levels with a commitment to teamwork, personal and

organizational learning and a quality service. LMP was implemented in two stages. Stage One, which took two years, commenced in October 1993 and scheduled all staff at senior level to have completed their first-five day module (presented by external training consultants) by October 1994. A corresponding middle management programme began in April 1994 with a view to completing the initial phase for existing staff within two years. Coverage of EOs and below was envisaged with an appropriately modified course content. It was to begin in late 1994 and be operating fully by early 1996. Assessment of the effectiveness of LMP is judged by line managers; data are collected in the Staff Perception Survey and the LMP Advisory Group at Steppers.

A CHANGE OF CULTURE?

Senior managers, largely technical professionals, cited the following areas of change: improved communication, improved service quality, greater customer focus, widespread IT use, layering and empowerment. Negatively, IT developments were seen to isolate staff and mediate against co-operation and teamworking. Layering, with 'real' empowerment, would produce a more organic, dynamic organizational structure but without it, as one interviewee explained, layering would only be perceived as a cost-cutting exercise and so mediate against commitment and thus 'this development could backfire'.

Without exception, all senior managers felt that changes were largely and consistently externally generated and imposed by government. Pressures for change were geared to 'costs' and went far beyond the need to merely stay within financial budgets. As one senior manager explained: 'Government pressures on the office have actually led us to reduce costs by 20%. So you can't have a bigger pressure than that coming from outside' (Senior Manager).

Similarly, while market testing had only affected certain peripheral areas to date (HRD and catering services), its impact had pervaded the organization. As one Senior Manager commented:

If you go back to FMIs, I don't think they achieved much at all, and I don't think the setting up of agencies worked either. I think the one thing that really did work was when they finally got to the crude threat 'we'll sack you', we'll give your job to the people in the private sector. Many people here have got families and responsibilities and what they thought was a safe contract was not, they could be pushed out of the organization at all levels . . . it is these kinds of things which have made it possible for managers to drive through change.

This is not to say the internally sponsored LMP went unrecognized, particularly as many identified it as a 'change' in itself rather than a vehicle for change. But constant external pressures for change from government

loomed far larger in the minds and everyday experiences of senior management.

Essentially, the senior management view was of adaptive, empowered and enthusiastic people working in teams towards a common objective within a new organizational culture. Though it was generally acknowledged that some changes were necessary, others were questioned; it was almost, as one senior manager noted, 'change for change sake'. What was clear from interviews with professionals, meanwhile, was the identity and purpose of their work. Professionalism and the correct way of working was clearly a motivating factor with this group. They were almost a community within a community with commitment both to their work and standards, and to the civil service. These attitudes were not apparent amongst the rest of the workforce.

Despite this upbeat image of change, ambivalence was apparent even among senior management. One respondent indicated:

People don't like change, I don't like change, we like to know where we are, and with the threat to jobs being taken away people are now once more reluctant to change. No, you can't tell where you're going to be at the end of all the changes, you just have to wait and see where you end up. (Group Director)

EMPOWERMENT

One of the consequences of the move away from traditional hierarchical structures to a 'delayed' form was a change in work processes associated with the 'empowerment' of individuals and business units. As one senior manager explained: 'Empowered teams are taking on the responsibilities for their work in order to improve the involvement of staff in a greater area of work activity and improve the quality of service for the organization'. They were, as another senior figure, described them: 'A very different way of working together'.

Newly formed empowered teams would have greater responsibility for the collection and production of data. Moreover, teamworking would make production of data more cost effective and efficient. Interviews with staff in middle management grades and below suggest that senior management enthusiasm about these developments may have failed to anticipate the changes that empowerment can bring. Many of the staff interviewed were cynical about the new work practices. Those working in the Data Collection Units felt the quality of work was much worse and staff morale was extremely low. The new working structures had increased the division of labour in the production of data because teams were now responsible for only one area of production, that is, data collection or data processing and analysis, whereas previously individuals had been responsible for seeing the whole product through. Consequently, people had become increasingly dissatisfied with teamworking and this put the quality of work produced under pressure. Generally, staff complained of increased responsibility

without increased power or remuneration. The scheme is about 'us doing more for the same' as one team member explained. In addition, 'spontaneous' teams were created, drawing together staff from a variety of areas for short-term projects; this resulted in resentment since this work had to be done in addition to existing job/workload and was thus seen as 'a way of Steppers getting things done on the cheap'.

More specifically, many staff felt that inadequate training had been given to team members both in new job skills and in team interaction skills. Some middle managers expressed concerns about 'letting go' of responsibility to such teams, 'some of whom could do the job, others could not'. Others regarded it as a 'fad', 'we will then go back to the way we were working previously, it worked, and we understood it'. Moreover, middle managers were concerned about teamworking because it posed a further threat to their jobs when linked to delayering.

Consequently, the senior management's view of empowerment was regarded by other staff as idealised and in practice it was greeted by many with cynicism and seen as nothing more than 'a cost-cutting exercise', displaying a gap between (1) the rhetoric and the reality of change; and (2) a picture of continuity.

THE ROLE OF HUMAN RESOURCE DEVELOPMENT

The training function at Steppers in the preceding five years had changed significantly. Not only had considerable money been spent on the building of a large new training suite but there was evidence of 'new blood' in senior posts. This, together with a successful in-house bid in the face of a market test, had made the new Human Resource Development (HRD) section at Steppers a much more dynamic operation and one which saw itself as quite separate and distinct from the personnel management section.

Naturally enough, HRD training staff expressed enthusiasm for LMP and it was seen as a success story to the extent that its messages and language of empowerment, teamworking and communication had presented managers and other staff with new working ideas. However, doubts were expressed about whether these ideas had been successfully translated into practice thus making for real change in values and behaviour. Internal documents of the LMP Advisory Group show that this group met to discuss progress on recommendations on 'how to shift LMP from the classroom into everyday working practices' and further reported that little progress had been made in this area, not least because managers were not coaching staff in the use of LMP techniques.

LMP was known to be successful only in 'pockets' of Steppers where senior line management had given its total support to the project. Otherwise, there are many areas where people are going on in the same old way – doing the hours and not the job – not changing at all, and largely due to line-manager inertia. Some line managers have still not even been on LMP although it has been running for years now. (Middle Manager)

The current Head of HRD, a recruit from the Australian Civil Service, believed that although LMP still had further potential as a vehicle for cultural change, because significant numbers of managers and lower grade staff had not yet attended, 'it had been pushed as far as people appear to want it to go' (see also, Dunn *et al.* 1994; Salama and Easterby-Smith 1994; Tyson 1990).

That the path of cultural change was not a smooth one, was indicated by the HRM manager. He argued that:

LMP has provided a kick start for change in Steppers and some small changes have occurred which have made people more chance-taking. But people are not risk-taking, the culture at Steppers is still very bureaucratic and role-oriented – you are your job.

He went on to argue that:

In the private sector organizations know what business they are in, where they want to be in the end. People skills are then matched with the business process in order to achieve the end product. At Steppers there is rhetoric about the need for change and a new ethos based on efficiency and business-like practices but no clear idea of what business we are in or where we want to be at the end.

Furthermore:

Trying to create a new culture was futile because culture has to match whatever the organization wants to achieve.

The LMP was thus developing people-skills without any real evaluation, something admitted by the Group Director. The inability of senior management to recognise the need for a specific end product was attributed to the current culture of Steppers which (1) fostered administrators not managers; (2) their lack of business management skills (in particular strategic, directional leadership); compounded by (3) their lack of understanding of what was being imposed on them by government (Dopson and Stewart 1990; Talbot 1994; Tyson 1990). The interviews with staff in HRD confirmed a gap between 'rhetoric and reality' and of 'continuity and change'.

THE ROLE OF PERSONNEL MANAGEMENT

Research undertaken by the Institute of Personnel Management on performance management and quality management in 1992 and 1993 concluded that people played an active role in the efforts to manage or change culture (Baron 1994). At the same time the evidence suggests that unless personnel policies and procedures are assessed and reviewed at the outset of a culture change programme the personnel function itself risks becoming the guardian of an outdated culture by reinforcing the behaviours the organization seeks to change.

In theory, the personnel function at Steppers had the potential to contrib-

ute to a change in a civil service agency. Agency status, decentralization and devolving HR functions throughout the civil service have widened the scope of personnel work beyond the reactive and administrative. It is important to note that, in addition to HRD perceiving itself as a separate entity from personnel management (or Personnel and Staff Development – PSD – as it is called at Steppers), staff in general see them as different sections. The attempt to change culture by the LMP can therefore be attributed to the positive contribution to this process by HRD alone.

Many of the managers interviewed, for example, were unsure about the contribution of PSD towards the change programme. Despite the rhetoric of devolution, many managers felt that too much time was spent by PSD on administration and not enough dealing with people and getting new ideas under way. Two comments made by PSD staff epitomise the administrative approach as opposed to a strategic, creative and dynamic one. 'There's loads to do but I don't know what it is' (Senior Personnel Manager). Second, an Executive Officer, commented: 'I couldn't say what I did all week, but I know I was busy. It was like all odd jobs. I had to answer the phone, and call in my senior officer's room three times a day to down load his Email because he was away'.

Other managers referred to the tensions created by PSD, between autonomy and procedural constraints. This was the feeling of a number of people and was colourfully expressed by one: 'I used to think the unions were a barrier to change, I think I got it wrong, the real obstacle to change in this place is the personnel section'.

To investigate these tensions further, interviews were conducted with selected members of PSD. It was apparent that whereas those in HRD, associated with the LMP, could be seen as dynamic, PSD staff were mainly 'reactive' and engaged in administrative and clerical tasks, not unlike the traditional administrative 'clerk of the works' model (Tyson and Fell 1986) where personnel is primarily concerned with adherence to rules and regulations and routine administrative and far from the innovative, sophisticated model associated with HRM and culture change (Armstrong 1990).

During interviews there was unease with the concept of culture in PSD, what it meant and what if anything they could do to change it. One respondent questioned whether culture change was needed, 'Things are fine now, we have become more like a business'. Moreover, members of PSD focused more on specific aspects of change, the 'processes' and 'systems' such as performance-related pay and appraisal than on the patterns of values and behaviours associated with culture itself. Finally, significant discontent was expressed both about the changes to traditional personnel activities and especially to the way in which new personnel systems had been imposed by government via senior management.

MIDDLE MANAGERS

A common concern expressed by middle managers, and confirmed with interviews conducted with subordinates, was that managers conditioned to working in hierarchical structures lacked the interpersonal skills needed to manage people in empowered teams.

We are not people managers, nor human resource experts. We have gone from administering tasks to managing people without adequate training. I'm all in favour of more responsibility and power over those I manage but we do need more professional support. (Graduate Manager)

The majority of middle managers at Steppers have been promoted by means of an internal labour market from the ranks of junior staff who, as elsewhere in the civil service, enter – usually educated to sixteen years old – with a distinct lack of the management training and development appropriate for them to become ‘new public managers’ (Talbot 1994; Tyson 1990).

The extent to which middle management are being asked to transform culture should not be underestimated. The LMP itself targets this group as key change agents and they in turn are expected to help their staff acquire new skills, new attitudes and deliver increased efficiency. This requires the commitment of middle managers and the harnessing of their capabilities in a new direction – to manage and no longer to just administer. It was their role as ‘change agents’, however, that created problems and tensions.

Lack of ownership of the change process was evident due to imposed change. Even where consultation had taken place it was seen as mere ‘window dressing’ as decisions had already been made and would be implemented regardless, resulting in resentment and detachment. Moreover, change plus delaying made many middle managers cynical. The majority argued that delaying had significantly lowered morale. For many, it had occurred purely to cut costs, not to meet a strategic need. As one explained: ‘Prospects of promotion are very much reduced, it does not matter anymore what I perform like, as far as I can see there are no prospects here for me’.

This problem was acute in an organization which has viewed job security as a key employment benefit and led to growing discontent over relatively modest remuneration, especially by comparison to the private sector. ‘We are trading middling job security for an increased commercial focus but we are not being rewarded for it. Pay is not based on market rates but is being held back by government policy’ (Middle Manager).

Perhaps one of the most telling remarks came from a middle manager who had been in the civil service for over 20 years:

Yes, there have been some changes in working practices, there have been some attempts to change values but the problem is all these changes are not going in the same direction. Take my grade for instance, on the one hand LMP is supposed to make me a facilitator of change, on the other

we see layering cutting back on management jobs. I've got nowhere to go from here, no more promotion, I'm at the end of the line. This has made me very cynical of the organization. Do cynics make the best leaders?

Individual performance-related pay linked to the staff appraisal system was also a contentious issue, with progress now based on performance determined by the 'subjective' assessment of line managers via staff appraisal. Traditionally, promotion prospects determined by line managers was unpopular and pay determined by this method is regarded as highly unsatisfactory. For many middle managers, the introduction of performance-related pay acted as a demotivator by focusing further on public sector pay inadequacies.

Faced with such contradictions and issues many middle managers feel disenfranchised, both at work and from the change process itself. Even those who are committed to that change process find difficulties:

Many are simply not able to understand all the information being thrown at them, for example, the new pay and grading system. Consequently, they are not able to cope with the increased demands of decision making and responsibility. (Middle Manager)

THE 'RANK AND FILE'

When junior staff were asked if the nature of their work had changed in recent years, what became clear, during the course of interviews, was that the method or 'how' they did their work had changed to the extent that many felt their 'world had been turned upside down'. The cause of this disruption was the widespread application of information technology (IT) at Steppers where all staff were allocated and expected to use a personal computer. For young staff computers were already a way of life, but for the majority of Steppers staff, who are in the 25–44 years age group and in junior grades, IT was seen as a major issue and one which they found difficult to adapt to. Although HRD offered a range of IT courses for staff, many of the older staff expressed difficulty in making use of their personal computer 'second nature'. This was exacerbated by what was seen as a constant pressure to change or the 'pace of change'. For example, no sooner had one software package been introduced than a new one was on the agenda. In recent years, WordPerfect had been superseded by Smart which had been overtaken by the currently used Lotus 123, and Excel was due to come on line in the near future. Staff learned to deal with the pace of change, not by overtly resisting – after all it was only a job – but by 'coping' with it. For example, they utilised the software package to the minimum extent required to do the job. This is shown by the comments of one junior officer: 'I don't even understand Lotus yet, and I am holding back on it, because I don't see the point in learning it all if it's going to be replaced

with Excel'. And so, junior staff had learnt to absorb the changes as best they could.

While the HRD team responsible for the LMP programme was confident that new attitudes to work would develop and change would be successful because of empowerment and new ways of working, interviews with junior staff showed clearly that work had changed, but was not supported by attitudinal acceptance. Many who worked in the new empowered teams felt that the work had been reorganized for the benefit of management not themselves. Some felt positive about the new more flexible working practices but for others the nature of the tasks remained meaningless and the degree of control granted to teams was very limited.

Junior staff showed little commitment either to the civil service or Step-pers, which contradicts the idealised view of all public sector committed workers ethos (Lawton and Rose 1991; Newman 1996). If, however, such workers are not committed to the work of the public sector then in theory it should be easier to change the culture, to 'engineer change' as one described it, but through mechanistic tools and threats. The key levers of change identified were CCT and in the short-term PRP. But these mechanisms were seen to be of use only to those staff affected. CCT had, according to one junior staff worker 'come and gone, and missed us by a mile', and PRP was for many meaningless, 'too remote or removed from daily routine' to have any significant impact.

Many of these workers had identified not with the organization as such but with other common identifiable groups. For instance, some expressed commitment to their workmates, colleagues or team members. Others felt some loyalty to their section, or unit, but this mainly reflected confidence or admiration for section heads. Many part-time workers showed a sense of commitment to other non-full-time workers. Women particularly identified with other women and mothers, who shared 'common problems'. Many of the women part-timers interviewed valued their job because of the flexible working hours/arrangements provided and favourable working conditions which enabled them to manage their work and domestic responsibilities. The majority of those interviewed are committed to their families not to the organization.

Cultural management was seen as the 'latest fashion' for managing people and like previous attempts at reform it would in their view 'rock the boat a little, but there was no real fear of capsizing'. Some trade unionists went further, and questioned the process of change itself and the lack of opportunity for proper two-way consultation and involvement. It was felt that all the changes, even LMP, had been driven by external forces without any attempt to involve the staff until after the changes had been introduced. As one union member explained:

yes, in this climate we accept the need for change but why not consult the staff. It's an opportunity missed, even when new plans are intro-

duced they are not met enthusiastically by staff, why should they? The name of the game here is compliance, we are told what to do and get on with it.

As another explained:

For culture change to work you need trust, it involves two-way communication, both parties understanding the other side. Here, change is all one-way, top driven, its almost as if we are pawns in a game of chess.

CONCLUSIONS

This paper has highlighted some of the problems with efforts to establish a new culture within the UK civil service. The senior management view of effective change contrasts with the other workers who argued it was relatively shallow. At best the outcomes are unintended and at worst rhetorical devices. Senior management, for example, used a range of performance indicators to illustrate cultural change. When staff were interviewed, however, it was clear that because of the power relationship at Steppers, they paid lip service to the results and did what was necessary without any real attitudinal and cultural change. Control systems, performance appraisal, performance pay and management would appear to maintain conformity in this organization, rather than shared values.

The case reported also highlights the problems of culture change which is seen by staff as imposed from above or top/down driven. From interviews with senior management it was clear they held a strong unitarist view of the organization. No attempt was made to explain or discuss cultural or sub-cultural difference in the organization such as gender, professional versus non-professional civil servants, divisions between sections, or, more importantly, divisions associated with the frontier of control between worker and manager.

What was apparent at Steppers was that sub-cultures existed within this organization which internally differentiated staff into smaller groups (Brown 1995). Thus, a 'them and us' situation pervaded at Steppers with staff grades holding a fundamentally different view of the world to senior management and this fostered a low trust relationship despite the attempt at cosmetic change. Middle managers too, though showing more commitment to aspects of the change programme than junior staff, were also somewhat ambivalent to, or cynical of, many of these changes. Within Steppers, the issue of gender as a sub-culture was also apparent, especially with the ever-growing numbers of female flexible workers, who were the least motivated, developed and valued members of the organization. Generally, this group of workers typically felt excluded from the general fabric of Steppers and its new culture. Indeed, for many this culture appears as a threat to the traditional bureaucratic paternalism associated with the civil service.

Finally, what this case study highlights is the problem of culture change imposed from outside the organization. The dominant view by all grades of

management and staff alike was that change had been imposed by external pressures. Such transformation was neither explained in Ibbs, nor apparent to senior management, should this be through a radical revolution or an incremental approach? To many of the staff the changes were simply seen as a response to external pressures which were separate and incoherent. Though senior management attempted to provide a sense of direction through the LMP programme, barriers to change remain, over formalized reporting procedures, hierarchical structures despite delayering, and personnel policies which did not 'fit' a dynamic flexible organization. In many senses, then, the culture change management programme was used and viewed at various levels of the organization as a rhetorical device. Moreover, it is very difficult to do away with traditional bureaucratic patterns of relationship by simply flattening the hierarchy or putting staff into empowered teams, and the efficacy of culture as a management control device is doubtful (Hope and Hendry 1995).

This turns us to wider debates on management culture. This approach presumes that organizational cultures can be assessed, managed, constructed and manipulated in the pursuit of enhanced organizational performance (Mabey and Salaman 1995, p. 283). Organizations will be able to replace decaying bureaucracy with a dynamic organic culture, and cultural control will simply displace bureaucratic and technological control (Anthony 1994).

The resurgence of unitarism associated with HRM has centred on culture (Noon 1994; Provis 1996). Organizations, accordingly, are viewed as being united under the umbrella of common goals, with all employees integrated into a team working towards these objectives. The emphasis is on leadership rather than power, the leader promoting a system of strongly held, shared values (Morgan 1986, pp. 188–9), through cultural change (Mabey and Salaman 1995).

While participants share some interests, it is not, however, at all clear that they need to have any distinctive shared values or congruence of interests as the unitary perspective implies (Keenoy 1990; Noon 1992; Provis 1996). A diversity of individual and group interests means the organization is a loose coalition of interests and conflict and power are inherent and ineradicable characteristics of organizational affairs (Morgan 1986). The public sector is a testament to the pluralistic reality of organizations. The highest trade union membership and density is to be found in the public service, as is the high density of professional occupations and associate professions. Professional employees lay claim to 'professional status' and this places them in a different kind of relationship, both to their managers and to service users (Moore 1996).

Watson (1995), moreover, distinguishes between the 'official' culture of an organization and the 'unofficial' culture or cultures of organizations. The former is the system of meanings, values, norms, espoused by the dominant managerial coalition, the latter are the systems of meanings, values and

norms actually prevailing in the organization. This is echoed by Brooks and Bate (1994) on the civil service, who found that an attempt to change from above was neutralized and frustrated by the cultural infrastructure at local level (see also Gouldner 1964).

While certain of our findings support the work of Brooks and Bate, we disagree on aspects of sub-cultural group values and in particular their contention that civil servants 'have a sense of public responsibility and duty' (1994, p. 181) and their claim that the public sector ethos is alien to the norms and values of the enterprise culture. At Steppers, support for the public sector ethos was not apparent in the junior staff interviewed but sub-cultures did exist which opposed the dominant cultures. These were based around identifiable groupings, for instance, 'us, the staff', versus 'them, the management' and professionals and full-time and part-time workers.

At the same time, what was clear from those interviewed was that the majority of staff had an aversion to change. This can partly be explained by the 'traditional' culture of the bureaucratic administrative civil service. Staff have been socialized into a culture in which individuals are trained to comply strictly with rules and procedures and because career incentives and promotion have been designed to reward conformity and discipline. Such values have been embedded, if not entrenched, in the civil service mentality. Another reason why staff had an aversion to change was fear about the implications of change and the threat to jobs associated with privatization. The rationale, or logic, of staff was to maintain the *status quo* and their view of the world was a long way off from the 'change masters' in Whitehall.

This is not to suggest, however, that culture cannot be changed, particularly when it grows organically (Hope and Hendry 1995). This is, therefore, a challenge to the prescriptive literature on culture change where the emphasis has been on pragmatic change implemented in a top/down fashion to create a consensual unitarist organization and a call for wider, more systematic studies based on long-term behavioural change which emphasises complexity (Anthony 1994; Legge 1995; Ogbonna 1992).

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IN SEARCH OF THE REGULATORY STATE: EVIDENCE FROM SCOTLAND

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Recent research has suggested that there is movement towards a 'regulatory state' in the UK with regulation an expanding area of government. This article identifies key Scottish differences from UK practice and suggests the growth and scale of regulation inside Scottish government is more modest than suggested by UK-wide research. It also reviews existing oversight arrangements within Scottish government for public service delivery bodies and questions whether many of these activities warrant the label 'regulation', arguing that a more accurate description is performance management.

INTRODUCTION

A major objective of devolution in Scotland is to strengthen democratic control and political accountability and this will require the new institutions to monitor and call to account the management of public service delivery. Scotland is argued to have suffered from democratic deficits because of the minority support for the Conservative governments 1979–97, the un-accountable nature of the territorial departments and the perceived greater incidence of un-elected public bodies (quangos). Devolution is part of the modernization project espoused by the Blair governments. It will have a considerable impact on how Britain is governed in terms of both the distribution and conduct of political power, and thus the framework of control and accountability for public services.

Devolution, however, will not be written on a clean slate. The new Scottish Parliament has inherited a bureaucratic apparatus which had the Scottish Office at the centre and a complex network of service delivery arrangements, whether through executive agencies, non-departmental public bodies, health authorities, local authorities, voluntary organizations or the private sector. As an integral part of British government, Scotland had experienced the same policy initiatives in terms of service delivery arrangements as the rest of the UK, but its distinctiveness has been in terms of administrative structure and practice, with considerable scope for autonomy in implementation. Devolution is seen as a means of enhancing political control by increasing the scope of ministerial supervision and parliamentary scrutiny beyond what was possible at Westminster.

In this paper, we examine the existing arrangements within Scottish

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Government to regulate service delivery bodies. As a recent study noted, UK national government delivers few public services directly to the people, 'but regulates other bodies responsible for provision' (Hood *et al.* 1999, pp. 93–4). The concept of regulation has been described as 'notoriously contested' in the context of economic regulation (Wright 1993), so we require a discussion of it in terms of public agency regulation.

Our research approach is a combination of interview fieldwork with key regulators and content analysis of relevant documentation. We were conducting this research when Scotland was in a period of transition and when events and developments were unfolding in front of us. As we are concerned with regulation inside government, we are not concerned here with economic regulation, which is undertaken by regulators of former nationalized industries with extensive powers to set prices and control support. Secondly, we are not concerned with institutions who undertake enforcement of regulations to protect the public. These are regulators in the traditional sense of the word. There has been a growth of both these dimensions of regulation, but our focus is on public service regulation.

THE NEW REGULATORY STATE?

Developments in the 1990s have been described variously as movement toward a 'regulatory' state' (Hoggett 1996), an 'evaluative state' (Henkel 1991), an 'audit society' (Power 1997) and an 'age of inspection' (Day and Klein 1990). Regulation is one of the functions of government and a key element of accountability regimes (Hood *et al.* 1993, p. 3) and British developments have been described as, 'a new model of organisational governance built around the principle of regulated autonomy' (Hoggett 1996, p. 6). So what is meant by regulation? To clarify the concept, it is worthwhile summarizing the findings of a major study of regulation in Whitehall. Hood, Scott, James, Jones and Travers (1999) seek to provide a 'general regulation perspective' to the oversight of public bureaucracies. To them, the term regulatory state:

suggests that modern states are placing more emphasis on the use of authority, rules and standard setting, particularly displacing an earlier emphasis on public ownership, public subsidies and directly provided services. (Hood *et al.* 1999, p. 3)

Regulatory bodies have grown in number and discharge their functions through oversight – standard setting, monitoring and enforcement of service delivery bodies. Regulation inside government has three main dimensions:

- one bureaucracy shapes the activities of another;
- there is some degree of organizational separation;
- the regulator has a mandate to scrutinize behaviour and to require it to change.

However, regulation is a slippery concept and it is difficult to define with precision where it begins and ends. Moreover, regulation inside government is diverse, with no single model agreed as a best practice approach. Hood *et al.* identify seven main types of regulator inside government – public auditors, professional inspectorates, ombudsmen, central agency regulators, departmental regulators of agencies, central government regulators of agencies and central government regulators of local authorities and the NHS. A central argument of the work is that regulatory change is bound up with broader changes in public service delivery, particularly through what has been labelled, ‘new public management’ (NPM), with its emphasis on decentralization of service delivery, competition and choice and performance assessment (see also Hoggett 1998).

This change of emphasis has been reflected in the growth of executive agencies, a mixed economy of provision in health and local government, and a new breed of ‘funding regulators’ in the form of some NDPBs. Thus NPM moves governance away from monolithic public bureaucracies with hierarchical line-management relationships and replaces ‘management relationships with regulatory oversights’ (Hood *et al.* 1999, p. 31). The result is that all parts of the public sector now face multiple regulators and there is greater emphasis on competition and oversight as mechanisms of regulation than on the traditional mutuality approach. Hood *et al.* conclude that

regulation in government is broadly conceived as arms-length oversight involving setting and monitoring of standards, and based on some element of authority. (1999, p. 24)

The study reported here points to a growth in regulation in the period 1976–95 in terms of staffing and budgets; a growth in formal oversight; and reliance on punitive sanctions for enforcement. For example, in local government, this took the form of a compulsory competitive tendering (CCT) regime for direct works services, strict expenditure controls, and the obligation to publish a variety of centrally determined performance indicators, particularly through the Citizen’s Charter after 1991. The result is that most service delivery bodies now place a heavy emphasis on corporate plans (or some variant thereof), performance indicators, service standards and annual reports as mechanisms of accountability for financial stewardship and organizational performance (see, for example, Henley *et al.* 1992; Likierman 1994; Minogue 1998). However, the degree of regulation differs. Hood *et al.* make the comment that:

regulation in government can vary according to how far the core regulatory activity – setting standards, monitoring and enforcing of rules and standards – is separated from other bureaucratic functions such as policy advice, consultancy, resource allocation and line management. (1999, p. 199)

and further, that

few of the regulators in government we studied combined all these three elements – standard setting, monitoring and enforcement – within a single organisation. (1999, p. 201)

To sum up, the study found a growth and a formalization of regulation, to replace the combination of mutuality and detailed expenditure and manpower controls over conventional public bureaucracies. They also record a tendency to separate regulatory functions from other bureaucratic functions and a more confrontational approach by regulatory bodies.

However, critics point to the limits to regulatory capacity, because of imperfect techniques, which make control at a distance problematic. If Hood *et al.* (1999) are right, that NPM places new disciplines in the form of strict resource control and the imposition of a battery of published and measurable performance indicators to determine the overall costs and benefits of the system, and other criticisms of the weaknesses of performance indicators are accurate (Carter 1991; Pollitt 1986), then regulation will be ineffective. Nevertheless, recent research suggests that performance technology is improving, with 'performance indicators becoming increasingly important in helping to switch the focus from inputs to outputs as substitutes for bottom-line measurement throughout the public sector' (Likierman 1994); several studies stress the informational limits of performance data (Hamlin 1994).

It is also observed that the growth of regulation is related to the development of NPM, with its emphasis on 'regulated autonomy' in service delivery, based on assumptions that strategic decisions can be separated from operational decisions, that 'efficiency' will result from this combination of competition and managerial autonomy, and that performance can be assessed adequately. We do not dissent greatly from that view. However, we disagree over the 'scale' of such development. Hood *et al.* argue that there are around 135 regulatory organizations within the terms of their definition, employing around 14 000 staff, and costing £770 millions in 1995. We have some problems with this observation as it includes a number of executive departments and agencies which have other functions apart from regulation. We are also unconvinced that central agency 'regulators' (in fact resource departments), who are part of the civil service, can be regarded as being at 'arms length' from functional departments. In short, we would argue that the figures provided do not accurately measure the scale of regulatory growth.

Secondly, while we also accept that some of the recent growth reflects NPM ideas, much of the growth predates the high watermark of NPM (post 1987). The local government and health ombudsman were established in the 1970s; the Scottish Accounts Commission was created in 1975; the Social Services Inspectorate in 1985. In addition, while there has been a growing mixed economy of service provision, public sector provision in its various forms remains the dominant mode of service delivery.

REGULATION IN SCOTLAND

Our concern here is with the relationship between executive government, public service agencies, and the new political institutions in Scotland. Regulation as defined above is concerned with a key part of the process of governance, which arguably can assist public accountability. The range of public service delivery bodies in Scotland are all dependent on public funds voted and approved under the new regime by the devolved institutions, but the pattern of regulation has been inherited from the Westminster system, and the new administration has supported the New Labour view that:

The Government needs to ensure that public bodies are clearly focused on the results that matter to people, that they monitor and report this progress in achieving these results, and that they must work in partnership with the independent audit bodies with inspectorates, so that we all focus on the goal of improving the value delivered to the public. (Cabinet Office 1999, Ch. 4 Para. 3)

Indeed, the Government is operating Public Service Agreements which require targets and measures to be set for public bodies.

The Whitehall study (Hood *et al.* 1999) noted the existence of territorial diversity, including inspectorates, funding bodies, ombudsmen and central departments, and concluded that territorial diversity will increase. However, these observations refer mainly to the existence of territorial regulatory bodies – which is indeed consistent with the conventional approach to territorial management – rather than differences in practice and behaviour. The pattern of regulation in Scotland reflects the place of the Scottish Office in the British system of government. Its scope for administrative autonomy to reflect special Scottish circumstances could result in differences in degree but not substance. Scotland has few Next Step Agencies, and Heald and Geaghan argue that agencification is somewhat marginal to territorial management (Heald and Geaghan 1997). Those that exist in Scotland, with the exception of the Scottish Prison Service, are of low political salience.

By contrast, there is a high incidence of quangos in Scotland compared with the UK norm, reflecting the growth of administrative devolution since 1979. Scotland has also experienced the changing role of non-departmental public bodies, from service provision to funding and supervision (Hogwood 1999). The pattern of regulation inherited in 1999 reflected a trend whereby service delivery was delegated to other bodies and supervised by departments or agencies. Hood *et al.* identify the list of organizations set out in Table 1 as regulatory bodies in Scotland. They include most of the categories identified earlier, with the exception of central agency regulators.

Regulation is carried out by funding bodies and inspectorates with roles to monitor standards of service delivery. In Scotland, under devolution, the education, social work and police inspectorates remain part of the executive

TABLE 1 *Regulatory bodies in Scotland 1995*

Accounts Commission for Scotland
National Audit Office
HM Inspectorate of Constabulary for Scotland
Scottish Consultative Council on the Curriculum
HM Inspectorate of Fire Services for Scotland
Mental Welfare Commission for Scotland
HM Inspectorate of Prisons for Scotland
HM Inspector of Schools, the Scottish Office
Social Work Services Inspectorate, the Scottish Office
Commission for Local Administration in Scotland
The Housing Association Ombudsman for Scotland
Parliamentary Commission for Administration
Scottish Prison Service Complaints Commission
Further Education Funding Division, the Scottish Office
Highlands and Islands Enterprise
Scottish Higher Education Funding Council
Scottish Homes
Scottish Enterprise

Source. Adapted from Hood *et al* (1999), Appendix II

departments. A new organization, Audit Scotland, will continue the existing functions of the National Audit Office and the Accounts Commission.

The seven regulatory categories used by the Whitehall study included three types of executive department regulator. Central agency regulators, located in the Treasury and Cabinet Office, set rules for the conduct of government business for the use of staff and expenditure. As noted earlier, we do not see this as meeting the definition of regulatory activity occurring at arms length from service delivery bodies. While there are Scottish counterparts of the Treasury and Cabinet Office under devolution, we are not convinced that these merit separate categorization in this context. Indeed, finance officials are used to playing a 'supportive' role for departments *vis-à-vis* Treasury, rather than a control role. Likewise, we do not see a need to differentiate between executive departments which regulate 'agencies' and those who regulate local public bodies and the NHS. Rather, we see such departments as being engaged in conventional executive oversight activities, although the style of such oversight may have been modified.

We shall therefore adopt a five-fold typology of institutions with regulatory functions. These are:

1. Executive departments
2. Professional inspectorates
3. Funding bodies
4. Public audit bodies
5. Ombudsmen

In post-devolution Scotland, a case could be made that the new committees of the Parliament are new regulatory institutions, involved, as they are,

in the shaping and scrutinizing of public service standards. However, it is difficult to draw any firm conclusions on the role these committees will play as we are at present in a period of transition. We have therefore decided to focus our analysis around the five-fold typology identified above.

The pattern of government in Scotland suggests there are reasons to expect differences in regulatory practice from the UK norm because of the degree of administrative autonomy. The basic regulatory family of documentation – corporate plans, budgets, annual reports, and so on exists because of the managerial developments, and such accountability documents are used to review performance and justify forward programmes (Heald and Gaughan 1997). The service delivery agencies ‘regulated’ include executive agencies, non-departmental public bodies, health bodies, local authorities or private companies as well as local spending bodies.

Much of this formalization of oversight occurred under the previous government. We can explore this further by setting out the arguments developed by Ian Lang, Secretary of State at the time of the Citizen’s Charter, in a speech on reinventing government (Lang 1992). Lang’s address acknowledges the adoption of the Osborne and Gaebler (1992) concepts by the Conservatives as part of an evolutionary approach. Lang emphasized the objective of establishing ‘a genuine plurality of organisations to deliver services’ (1992, p. 1). He argued that it was no longer acceptable for public service agencies to act as ‘purchaser, provider and regulator’ (1992, p. 3) and for traditional parliamentary and judicial mechanisms of accountability to be supplemented by ‘more specific kinds of accountability’ (1992, p. 4). Thus:

Accountability is also achieved if public services are delivered closer to the people who rely on them. Decisions should be taken much closer to the customer so that the lines of accountability are clear. And there should be greater openness so that the customer is empowered and enabled to hold public services to account. That’s why improvement, through the detailing and the enhancement of rights – both to information and to standards of service – as specified in the Citizen’s Charter, is central to the Government’s philosophy. (Lang 1992, p. 4)

This resulted in the decentralization of service delivery and the separation of funding and providing roles, in enterprise, health, and housing, and the promotion of an ‘enabling’ role for local authorities (Midwinter 1995). The success of this policy in practice is contested, but much of the organizational and managerial framework has survived, albeit in a framework which emphasizes the rhetoric of ‘partnership’ rather than ‘competition and choice’.

ROLES AND RELATIONSHIPS IN PRACTICE

Our empirical research, focusing on departments, inspectorates, funding bodies, auditors and ombudsmen, confirms consistencies in Scottish prac-

tice with the developments in the UK as a whole. There is a new formality in executive relationships with service delivery bodies. There is variety in the degree of regulation. Like Hood *et al.*, we acknowledge there are few institutions that are using all three of the regulatory functions: standard setting, monitoring and enforcement. However, our fieldwork raises a number of problems in the 'trends to regulation' argument.

Executive departments

In executive departments, few of our interviewees saw themselves as regulators. This finding is consistent with the Hood *et al.*'s study, where 'regulators', as defined by them, did not see parallels in their roles (1999, p. 33). The language of regulation had to be teased out in discussion, to such an extent that we concluded that using the term as an overarching one to describe the activities of civil servants, inspectors, auditors, agency chief executives and ombudsmen is dubious. The suitability of the term was consistently questioned in our fieldwork. Thus:

'I am an influencer rather than a regulator – I lack the powers to be referred to as a regulator'.

Rather than regulation, we could call it oversight or sponsorship.

It is not unfair to describe my policy areas as self-regulatory, how therefore can I be described as a regulator?

We assist rather than regulate.

We did not conclude that this confusion over the terms was a misconception by interviewees. Rather it convinced us that existing analytical frameworks lack conceptual clarity. Equating oversight activities with regulation is problematic, as departments are consistently engaged in oversight relationships with service delivery bodies which range from *laissez-faire* to regulatory relationships; these have a long history. In the Griffiths (1966) typology of departmental-local authority relations, the regulatory approach involved setting minimum standards. Therefore, we need to distinguish oversight relationships from regulation, which as defined in terms of setting rules and standards and influencing behaviour is one form of oversight.

Economic regulation, as undertaken by the independent regulators of the privatized public corporations, is a good and clear example of regulation. The regulator can require investment, set prices and influence profitability through supervision of the privatized utilities. Regulators concerned with public protection of the environment, water quality, hygiene, health and safety, all have standard setting, monitoring and enforcement roles. The problems arise when the regulatory concept is extended inside government, to all institutions, institutions which have a range of functions, only one of which may be termed regulatory.

Loughlin and Scott (1997) recognize the establishment of 'institutionally

distinct regulators', and 'regulatory agencies' outwith central departments. They see the separation of policy-making from service delivery; the creation of free-standing regulators, and the growth of formality over the 'old bureaucratic arrangements' as key elements. The use of formal rules as instruments of regulation is the result, and the formalization of relationships in the New Public Management, with its emphasis on strategic planning, targets, performance indicators and annual reports, of itself constitutes a regulatory mode of governance.

We are not convinced by this argument. We fully accept that there has been an increasing formalization of relationships around such documentation and data, rather than reliance on mutuality and trust in the traditional public bureaucracy model. However, the traditional public bureaucracy model also included detailed controls on expenditure and staffing, and was arguably more important in relations between co-ordinating and functional departments within Whitehall. New Public Management combined managerialism with markets (Pollitt 1993). In the case of executive departments, it is arguable that 'regulation' as defined in the literature is simply a shift in style of 'executive oversight'.

Hood and James discuss 'oversight' as one of four control mechanisms. Thus, for them,

Oversight denotes the way politicians and bureaucrats are controlled by formal review, audit or inspection by external agents. Such processes are widespread throughout the government. (Hood and James 1997, p. 189)

They see parliament as exercising oversight over ministers and civil servants, and service delivery as being subject to overseers who monitor statements, are concerned with quality, efficiency, legality, and so on. Oversight is used as a generic concept. In practice, the term oversight is used to refer to the supervision of service delivery by executive departments, and it preceded NPM. What has been defined as 'regulation' is arguably a form of oversight which departments exercise over service delivery agencies with differing degrees of formalism. We certainly take the view that it should be distinguished from regulation as carried out by independent regulatory bodies such as auditors or ombudsmen. Oversight operates with differing degrees of formality; it can be 'tight' and well defined, approximating a principal and agent relationship; or 'loose', with substantial latitude in interpretation (Foster and Plowden 1997).

Within the Executive, oversight is but one of several bureaucratic tasks; others include policy advice, line management and administration. Several of our interviewees spoke of having a 'light touch' approach to oversight, with persuasion preferred to regulation as the means to influence service delivery bodies, and performance documentation being seen as the basis for discussion and negotiation. There is, therefore, continuous dialogue and consultation between the sponsor departments and the service delivery bodies in which the latter can influence its own standards and targets.

Civil servants distinguish their policy roles from their oversight roles. Executive oversight of NDPBs, for example, combines financial control over the agency with resource advocacy for its funding within government. Fundamentally, the focus of higher level civil servants is on supporting ministers, rather than managing or regulating public services. Regulation is thus a poor (and inaccurate) description for their role. As noted by one of our interviewees,

Rather than regulation, we call it sponsorship. We provide finance and frameworks of support. I would think of regulators as people who protect the public interest, but we support ministers.

Another civil servant we spoke to regarded regulation as the controls available to him to operate with local authorities and agencies, with the former being mainly financial. Executive oversight, we believe, is a qualitatively different function of government than regulation, and while there has been a growing reliance on systems of performance management, elements of line-management relationships remain, particularly in relation to service delivery through Executive Agencies, NDPBs and health bodies.

It is also important to distinguish analytically between executive oversight over government agencies, and semi-autonomous institutions such as local authorities and universities. This was noted in the recent government report, *Standards in Public Life*, which reported important constitutional differences between local authorities and public bodies. For our purposes, the significant difference is that agencies are regarded by government as 'their' agencies. The report records a range of public bodies which are sponsored by the Scottish executive and responsible for delivering services in accordance with executive policies (Scottish Executive 1999).

Executive agencies, which were created as a result of the Conservatives' Next Steps Initiative, have their relations with the department defined in a framework document. Targets are agreed and set for such agencies, and performance reported annually. While some analysts regard the creation of agencies as part of the 'hollowing out of the state' (Rhodes 1997), one recent study argued that ministers had gained more direct power over parts of their departments by turning them into agencies (Foster and Plowden 1997). With executive agencies operating within a policy and resource framework set by ministers, and agreeing targets for performance, ministers have arguably strengthened control over agencies in which they took little interest when these agencies were executive divisions of departments. The Controller of Audit for Scotland recently argued that such bodies, with health bodies and local authorities, were part of a 'hollowed out state' accounting for 85 per cent of the Scottish Block of public expenditure in 1997-98 (Black 1999). However, there is nothing new in this situation. Government has always used local authorities and agencies for service delivery. In fact, the sum accounted for by executive agencies in Scotland is small as a proportion of the block. The state in Scotland is far from hollow.

Executive agencies, quangos and health bodies are organizations used by sponsor departments to implement government policy. We consider these together as these are really different forms of departmental agency. While the pure separation of policy from administration is impossible, nevertheless the lead role in policy remains with the executive, and in service delivery with the agency. The process in practice, however, is that feedback from managers informs policy. A recent review of the NHS observed that it is precisely because of their familiarity with and understanding of health policy and management that senior managers either seek or are invited to contribute to the higher levels of the policy forming process (Harrison and Nutley 1996).

In our discussions with officials we were left questioning whether such relationships did not in fact resemble traditional 'line management'. As one official observed:

officials like me are servants of the minister. It is my job to oversee these bodies through a range of machinery. Indeed in practice, these bodies are in a line management relationship with the minister.

Informal discussion is a key part of the process. 'Guidance' never springs surprises on managers and their operating plans reflect it. Guidance focuses clearly on what ministers want to achieve. In practice, controlling such bodies is not seen as a major problem. Rather, mutual interest is in finding ways to best give effect to guidance. Chief executives have a vested interest in ensuring that the needs of delivery are reflected in policy. One major agency noted the change of government in its minutes and recorded its desire to influence policy development under New Labour. This reflects the essential two-way nature of executive-agency relations. Executive departments define the parameters within which agencies operate and monitor performance against service provision and funding. These 'light touch' relations reflect conventional oversight that has always existed within government; we see no need to re-label them 'regulatory'. Indeed, the 'arms length' idea seems weak in practice, and there is much closer interaction than the definition infers.

While the same formal documentation exists in strategic plans and annual reports, there are key differences in style between agencies of government. However, the processes of oversight over executive agencies, NDPBs and health bodies have similarities. Next Steps Agencies were set up to improve service delivery to the public by giving individual managers greater operational autonomy. This is achieved under a policy and resource framework set out by ministers in a Framework Document. Their Annual Reports and Corporate Plans are approved by Ministers, and Key Performance Indicators are agreed with Ministers.

NDPBs, by contrast, can be both reactive and proactive in the policy process, selling ideas to the sponsor division. They have their own budgets and carry out a range of prescribed functions within government guide-

lines. They are answerable to Ministers and their aims and objectives are governed by a Management Statement which sets out arrangements for strategic planning, objective and target setting, and performance review. Health boards perform a similar role and operate within a similar framework, with Priorities and Planning Guidance which is issued annually in a Management Executive Letter. They are expected to take account of this guidance in their plans. NHS bodies agree a corporate contract with the department. Agreements include performance targets and these are used to determine how far they achieved their objectives and complied with ministerial advice. Flynn (1992) observes that the development of performance indicators has strengthened governmental influence over resource allocation and service provision.

There are important differences in the oversight function in relation to local authorities. Councillors are accountable to electors, not appointed and accountable to ministers. Numerous studies have recorded the deterioration in relations between central and local government since 1979, and the increased reliance on mechanisms of control rather than understandings or conventions. Hood *et al.* (1999) describe the relationship as 'essentially regulatory'. Others have described it as a 'policy mess' in which neither side achieves its objectives (Rhodes 1984; 1988) or 'radical centralization' (Dunleavy 1997). We find it difficult, however, to conceptualize central government as an 'independent regulatory body' which sets standards and enforces compliance. It is certainly the case that budgetary controls were strengthened in the 1980s (and a number of councils were capped by government); compulsory competitive tendering was introduced and powers removed from local government. Nevertheless, even in services in which the centre took a strong interest, for example, over staffing standards in schools or policing, these were not enforced. In Scotland, for example, Strathclyde Region consistently refused to fund its police force at the level of staffing provided for in the approval complement, despite reports by the inspectorate. Local authorities are still not required to submit planning and performance information to central departments to allow the degree of monitoring that is applied to agencies. While the Best Value initiative exhorts the development of rational management frameworks, the BV plans are not approved by the executive, but remain mechanisms for internal management and public reporting. The underlying model is the same, but there is an absence of direct regulatory power. Rather, it is a means to persuade councils of the merits of managerialism (Midwinter and McGarvey 1999). We therefore could not conclude as Peter John did of developments in England, that,

Labour's plans for Best Value and local performance plans in local government have little to distinguish them from the Value for Money proposals pushed by the Audit Commission since 1982 the Best Value criteria will encourage councils to retain competitive tendering, although

in the context of a partnership between local and central government. (John 1997, p. 274)

Rather, they promote a performance management system in the orthodox mode of executive departments, and allow authorities to retain a service delivery role by benchmarking and market testing. In our fieldwork, we observed differences of approach to the oversight of council housing departments compared with other housing bodies. Local housing departments are part of the council as a corporate body, and governed by its internal management arrangements. The regulatory framework within which councils operate is mainly statutory or financial, rather than through a performance management relationship with departments.

Funding bodies

Three main funding bodies in Scotland have some regulatory functions: Scottish Homes, Scottish Enterprise and the Scottish Higher Education Funding Council. All are non-department public bodies.

Scottish Homes regulates the activities of Registered Social Landlords (RSLs) which in the main are housing associations. Recent government initiatives have created new forms of housing company and resulted in the development of a contractual regulatory framework alongside the statutory one for non-housing association social landlords. Scottish Homes has a very elaborate registration and supervision framework. It is responsible for setting the criteria a RSL must meet if it wishes to be registered and qualify for a Housing Allocation Grant. Together with the Scottish Federation of Housing Associations, it has set out standards to which registered housing associations must operate. There are over 270 registered housing associations in Scotland.

There is no concise document outlining the reporting framework upwards for Scottish Homes. The Scottish Executive approach appears to be very much to let Scottish Homes get on with the job of regulating non-council social housing in Scotland. As an interviewer commented,

There is no point in appointing these highly qualified people to sit on the Scottish Homes Board and then peer over their shoulders all the time. We define the parameters, keep a close eye on overall targets . . . try to define their objectives and role, but at the same time try to leave it to them within that context to get on with it. The role of central government is to police the general direction of the body.

The Scottish Homes regulatory framework is defined as a constructive basis on which to build management capacity within RSLs (Scottish Homes 1999). It carries out its supervisory functions through performance audit visits, annual performance returns and a financial information scrutiny system. Performance audit visits occur at least once every four years, depending on the performance rating achieved previously. The overall

grade awarded affects the stringency of the regulatory framework to which the RSL will be subject to. Almost 90 per cent of housing associations have received satisfactory (or better) reports and no housing association in Scotland has ever failed financially. Annual performance returns cover the five main functions of any association: committee and association accountability, housing management, maintenance, development and finance. All RSLs must submit audited annual accounts to Scottish Homes. Depending on their size and grading, most associations also have to submit management accounts every three months and information on their loan portfolio every six months. Scrutiny of this information by Scottish Homes Regional Accountants ensures that Scottish Homes has early warning if an association is developing financial problems.

Scottish Homes also has statutory power: to make appointments to, and suspend members from, an association's committee if it perceives a problem; to instruct a statutory inquiry if it considers there may have been misconduct or mismanagement; to request an extraordinary audit and restrict financial transactions. Scottish Homes' ultimate power over an RSL registered under contract is removal from the register. This is likely to trigger the concerns of the RSL's lenders and is likely to bring all interested parties (lenders, Scottish Homes, the RSL, the local council) round the table to achieve a solution (which from Scottish Homes' perspective is likely to involve the transfer of assets to another RSL).

The Scottish Homes regulatory regime, according to its own documentation, 'establishes comparisons between RSLs and a culture of ownership of performance and commitment to improvement' which forms the basis of a Best Value approach which Scottish Homes is developing in consultation with RSLs, and is seen by Scottish Homes as a 'badge of quality' which gives confidence to private sector funders. In our fieldwork, Scottish Homes seems to be the strongest candidate for the term 'regulator'. The executive has recently announced that it is to convert from an NDPB into an Executive Agency and increase its regulatory role to all social landlords (including local councils), while passing its strategic planning role to local authorities. At present a substantial portion of housing monies in Scotland is being channelled into the Challenge Fund which is seeking to establish Housing Partnerships between delivery agencies. In 2001 it is anticipated that a significant number of Scottish councils will transfer their stock to new social landlords under the Scottish Executive's Large Scale Voluntary Transfer Scheme.

Scottish Enterprise is the key body responsible for economic development, financial assistance to industry and training. It was created in 1990 through bringing together the functions of the old Scottish Development Agency (SDA) and the former Manpower Services Commission/Training Agency. It is a unique 'public sector' organization without direct parallel outwith Scotland (Fairley and Lloyd 1995, p. 52). It oversees the Scottish Enterprise Network (SEN) which is made up of 13 Local Enterprise Compa-

nies (LECs) together with their respective subsidiaries. Scottish Enterprise undertakes national and strategic projects directly and is also responsible for leadership, support and control of the SEN. It is funded by the executive but also generates income from rents, interest and dividends, loan repayments and from the sale of assets and investments. It also receives European Community funds.

LECs are companies and recognized as such under the Companies Act. The initial conception of LECs was that they would operate, with a high degree of autonomy, as private companies but in practice they have become service delivery agencies reliant upon funding support through contracts with Scottish Enterprise. Scottish Enterprise has contracts with LECs for the implementation of strategy at the local level through the delivery of a wide range of business development and training services, along with environmental and regeneration programmes. All staff in the SEN network are employed by Scottish Enterprise and seconded to LECs.

Strategic oversight is exercised by the department, as one civil servant commented,

by far the most efficient and effective way to use a body like Scottish Enterprise is to agree the strategy, the direction, the budget and the other key factors and then let the body get on with it.

In carrying out its functions Scottish Enterprise is required to comply with the terms of a Management Statement issued by the Scottish Executive which provides a financial managerial and operational framework. The terms of the framework are reflected in the contracts between Scottish Enterprise and LECs with the executive concerned with setting the broad parameters and priorities of their operation, allowing Scottish Enterprise to develop policies within this area. Regulation between the Executive and Scottish Enterprise was found to be very 'light touch'. The Management Statement, issued by the First Minister, contains annual strategic guidance.

The relationship with the executive is formalized around key planning and audit documents but key informal discussions take place between civil servants and responsible minister after every Scottish Enterprise Board Meeting. Scottish Enterprise operates within what MacLeod refers to as a 'broad organic institutional fabric' (1996, p. 749). It interacts with key institutions in the economic policy community.

The LEC concept and SEN strategy can be seen as an attempt to reproduce these 'synergetic' networks at a local level. Also reproduced are many of the regulatory mechanisms which exist between Scottish Enterprise and the Scottish Executive. LEC operating contracts pass on all the responsibilities in the above management statement to LECS. In this sense, Scottish Enterprise is merely a strategic intermediary body. LEC boards are locally appointed with no prior approval required. Boards usually consist of 'representatives' from local business, councils, the voluntary sector, trade unions and other civic groups. The only requirement is that two-thirds of

LEC Boards are from local business. LEC boards are unitary – members of the board are under no obligation to represent some external interest (Fairly and Lloyd 1995, pp. 66–7). In theory, LECs can face competition for grants from Scottish Enterprise; however, in practice, no such competition exists.

LECs operate under an ‘output measurement framework’ (OMF). This framework contains within it the planning system of the SEN – it allows the plans, programmes and projects to be linked with the strategic objectives of the network. It also has a monitoring and reporting system which enables outputs to be compared with plans as projects are implemented. Its final part is an evaluation system which seeks to assess the effectiveness of plans, programmes and projects. Prior to the introduction of OMF, Scottish Enterprise had been criticized for its failure to develop a reporting framework capable of assessing the effectiveness of the SEN’s activities (Scottish Affairs Committee 1995; National Audit Office 1996), highlighting the gap between policy and practice.

The Scottish Higher Education Funding Council (SHEFC) is also accorded a significant degree of autonomy by the Scottish Executive. It too is governed by a Management Statement which sets out the broad policy and managerial framework within which it operates. Interference by the department is very infrequent – as one civil servant noted, ‘academics by virtue of their experience and background can usually make a convincing case to sort matters out themselves’.

SHEFC is the Scottish successor body to the University Funding Council. It was set up by new legislation in 1992, and by contrast with Scottish Homes and Scottish Enterprise, is a funding body with limited regulatory capacity. It rewards performance in resource allocation through ratings established by peer review. SHEFC’s relationships with universities are less frequent and less formal than those of Scottish Homes and Scottish Enterprise with their respective service delivery ‘subsidiaries’. There is recognition of the institutional autonomy of universities.

The Funding Council (SHEFC) basically operates as an intermediary between government and universities to ensure there is no interference over university teaching and syllabuses. There is a sense in which its focus is as much upwards as downwards. It frequently provides advice to government on the key strategic issues arising from higher education in Scotland. There is very little by way of government interference and regulation in its day-to-day activities. The nature and culture of academia is reflected in relations where universities are accorded significant autonomy to develop their respective policies within broad guidelines and policy priorities (for example, widening access, developing research capacity). As SHEFC themselves state in their guidance to universities,

the main purpose of the Council’s requirement for strategic plans is to provide assistance to institutions in their internal management and monitoring. (SHEFC 1998, Para 2)

SHEFC's role is facilitative rather than regulatory. It is recognized that in the relatively small village of Scottish higher education, universities can access key policymakers directly and 'sell' their case, bypassing SHEFC. SHEFC's main task is distributing formula based monies to universities. Although not an entirely academic-led body, SHEFC are to a degree undertaking self-regulation. As noted in interview,

academics as a breed are difficult to direct. Universities are statutorily autonomous bodies who decide their own mission. We operate light touch regulation. Performance indicators have less impact than in other policy sectors.

Inspectorates

The inspection of service provision is a core mechanism in regulatory theory. Inspectors have been a feature of oversight in Scotland for most of this century. Indeed, prior to the creation of the modern Scottish Office, the head of the Education Board for Scotland was a professional. In England, an independent agency (OFSTED) was made responsible for the inspection of schools, with an objective to improve standards of achievement and quality of education through regular independent inspection, public reporting and informal advice. This did not happen in Scotland. The Scottish Executive has inherited a number of inspectorates: for education, police, fire and social work in local authority services, and in prisons as an executive agency.

Local authorities themselves employ inspectors who have enforcement powers (e.g. trading standards, environmental health). In the main the national inspectorates lack these enforcement powers.

unlike enforcement inspectors, there is no core function which school inspectors have to perform. Enforcement inspectors have certain regulations to administer and have powers and sanctions accordingly. They have at least this specific duty of carry out. Schools inspectors do not. (Rhodes 1981, p. 13).

This observation remains true for the Scottish position today, and also for social work and police.

One instance of this is that the only power open to the Inspector of Constabulary is over complaints regarding the police. Inspection advice functions are carried out: (a) by reports to Scottish Ministers; and (b) by providing information to assist in policy making on the basis of knowledge of what is happening on the ground. Scotland has a much less formal system than in England and Wales, where police authorities have a statutory requirement to produce 'Police Plans'. English ministers set strategic objectives, which are 'tablets of stone'. In Scotland there is a lot more push and shove in reaching agreements. Policing plans do not require ministerial approval. The Inspector's independence is in investigation and reporting,

and this inspection allows the provision of information and evidence to inform policy and practice, but not to enforce change. The strength of evidence from the inspection reports encourages Chief Constables to comply, and if not, to justify non-compliance. The last resort of enforcing change is to encourage the Scottish Executive to use its power to direct a police authority to take action following submission of an adverse report by HMIC.

Like other inspectorates there is movement away from routine inspection visits to more thematic reviews. This provides for thorough in-depth reviews of particular areas of police activity across all forces, and thus greater potential for influencing policy on a national scale.

The only jurisdiction over police authorities is through Best Value in the setting of performance targets with the Accounts Commission. Scotland remains dependent on a consultative style based on convention and consensus, not codification, as in England. There is no statutory duty for chief constables to publish Inspectorate findings in their annual reports to police authorities; however, all do – this is indicative of the culture of voluntary compliance. Ministers can make regulations regarding conditions of service, issue guidance to police authorities, and control total spending through police grant and capital controls. Inspectors visit and enquire into the state and efficiency of police forces and report to the Scottish Executive. Essentially, policing in Scotland is governed by a tripartite relationship between the police authority, chief constable and central government.

The Social Work Inspectorate also provides inspection and advice. It is concerned with the quality of services across Scotland, not individual authorities or specific institutions. Advice to ministers is based on research and professional experience in social work policy and practice. The Chief Inspector is accountable to the minister, serves on the departmental management team, and values the scope for influence. Authorities are required to say what they intend to change as a result of the inspection. Conversely, local authorities themselves have powers to regulate private and voluntary residential care homes, and day care services for children, while health boards regulate nursing homes. This system is being rationalized by the creation of a Scottish Commission for the Regulation of Care, which will be responsible for regulation of service provision by private institutions, through setting standards, registration and inspection, while a Scottish Social Services Council will regulate the workforce. However,

the national Social Work Services Inspectorate will continue its programme of themed inspections which will focus on strategic issues and be complementary to the local inspection process. SWSI will retain its powers to investigate issues of concern. SWSI will report annually to Parliament on the delivery of Social Work Services across Scotland. (Scottish Executive 1999, Para 3.6)

In social work, also, the key role of inspection is the provision of information and advice to develop policy based on knowledge of practice.

Education inspectors also have a dual role, of schools inspection and policy advice. The major study of education governance in Scotland observed a variety of inspectorial roles, including 'patrons, brokers, partners, information gatherers, disseminators and even as inspectors' (McPherson and Raab 1988). Inspectors help make government policy and promote it, and seek to influence practice. Under new legislation, their scope will be expanded to 'inspect the educational function of local authorities', rather than schools, and it also gives inspectors the power to make consolidated inspections of schools. Regulation is not regarded as an appropriate description of a task which seeks to assist teachers and authorities to improve. The 'nuclear option' of recommending closure of a school is a last resort, almost a reserve power. The *Scotsman* newspaper has been demanding an OFSTED-style inspectorate, something which is being resisted by inspectors and ministers. Using the confrontational language of 'rattling cages', is not the Inspectorate's way (Little 1999). Some educational administrators also believe there is a case for separating quality assessment from policy advice, but the Inspectorate is seen by ministers as an impartial source of advice because of its extensive knowledge of practice which is evidence based.

Inspection in education, then, has a broader set of concerns than narrow regulation. The HMI is involved in determining performance indicators with the Accounts Commission in relation to inspections of local authorities. However, the relationship with education authorities amounts to more than standard setting, monitoring and enforcement. It is part of the process of executive oversight and seems likely to remain so.

Inspection and audit teams have been collaborating in the development of performance management, seeking to blend their respective concerns with quality and efficiency. There is a movement towards thematic reviews as the overall inspection programme is restructured. But in Scotland the manifestation of performance management and efficiency concerns is in a mode that is not confrontational.

Public audit

The public audit function in Scotland prior to devolution was the responsibility of two bodies, the National Audit Office in Scotland, and the Accounts Commission. The NAO was responsible for audit of the Scotland Office, and the Accounts Commission audited local authorities and local health authorities. Both organizations' core work was in probity and regularity audit, which, with the power of surcharge for improper use of public funds, was clearly a regulatory function. In the post Rayner/FMI development of value-for-money audit, the scope of these bodies expanded. In the case of NAO, this has been confined to VFM studies, with no real location in the development of performance indicators. These were seen to be the responsibility of departments. The Accounts Commission has experienced a greater expansion, with new responsibility for value-for-money studies,

the promotion of performance indicators and auditing NHS Trusts. (Rodden 1998).

The NAO and the Commission both undertake an annual programme of VFM studies. The NAO attempts to calculate the financial savings arising from its efforts and to agree these with the relevant department. This means attributing a monetary value to all matters, even when the efficiency gains identified (for example, greater productivity) are not cash releasing. The handling of the results of such studies needs careful management, as promoting efficiency, in the hands of a sceptical media, is easily presented as 'waste in the bureaucracy'. The Accounts Commission has encountered professional scepticism in its VFM role. Kelly and Rodden's research revealed that while there was widespread agreement on the efficiency of the Commission in its regularity and probity role, the attitude towards VFM studies was lukewarm, and to the development of performance indicators was cold (Kelly and Rodden 1998).

We differ in our interpretation of these changes from that of Hood *et al.* (1999). The expansion of VFM and PIs is real, but it does not in our view constitute regulation, as councils have no statutory requirement to accept the findings of national VFM studies and are required only to publish the agreed PIs. Local audit practice requires the Commission only to assess whether the body has 'arrangements' for achieving VFM, not whether they are actually delivering it. These activities are promotional (of best practice) rather than regulatory (setting, monitoring and enforcing rules and standards), although under Best Value, councils will be discussing prospects for improvements in appropriate cases with the auditors.

The differences in the two approaches of the Commission is well captured in the paper by Kelly and Rodden, who categorize them as 'Watchdog and Guidedog'. They see the VFM powers as initiating the guide dog role, in which it seeks to 'direct local authorities towards its thinking on best practice' (1998, p. 6). The authors conclude that 'the author as guide dog identifies the need for change and makes recommendations on how to achieve it, it is left to the discretion of management whether to implement these changes' (1998, p. 7). This requires the maintenance of good relationships, but this is particularly problematic if councils react in a hostile or defensive mode to VFM findings, as they have in the past. For example, the Commission produced a VFM report on the scope to improve council tax collection, which was the subject of some criticism from councils querying the basis of its judgements and the targets for improvement. The following year, performance in seven councils worsened, and the Commission's conclusions were undermined by the revelation from COSLA that a major cause of differences of collection rates in Scotland was due to Scottish authorities requirement to collect water and sewerage charges, for which no rebate scheme exists. As we have reported elsewhere, councils felt this did not bode well for the development of Best Value (Midwinter and McGarvey 1999).

Compared to the rest of the UK, there are important differences in practice and style in Scotland. Firstly, the Audit Commission lacks the probity and regulatory role of the Accounts Commission. The Accounts Commission is less confrontational in style. It received its VFM powers much later than the Audit Commission, and it has exercised them more cautiously. The two bodies will form part of Audit Scotland (NAO and AC) under the Auditor General for Scotland, and the new appointee (the head of the Accounts Commission) sees the performance measurement role as vital under devolution. For Black (1999) 'performance measurement is central to modernising government', stressing the continuity of managerialism from the previous Conservative governments. The role of audit is more than regulatory. The Chairman of the Accounts Commission recently expressed the view that he did not see his body as 'a policeman or regulator but as a motivator and facilitator'. In audit, as with other regulatory roles, we see the existence of formal roles and informal relationships.

Ombudsmen

Finally, we turn to the work of ombudsmen, who investigate complaints of maladministration. The UK Parliamentary Commissioner and the Local Commissioner for Administration have statutory independence. Other bodies, such as Scottish Homes or Scottish Enterprise, appoint their own ombudsman to deal with complaints. At the moment, the Parliamentary Commissioner's role *vis à vis* the Scottish Parliament is held by the UK Commissioner.

The Local Government Ombudsman's power is to investigate allegations made by individuals who claim to have suffered an injustice as a result of maladministration by local authorities. The Ombudsman cannot challenge the quality of the decision and cannot compel the authority to redress an injustice. In Scotland, the Ombudsman has sought to persuade councils of the need for redress and has had no reports rejected by councils in recent years. In practice, this process has become more informal, seeking to see if grounds for settlement can be made without reporting, and mainly over issues of clear maladministration.

Changes in local government have reduced the volume of complaints to the Ombudsman, particularly because of the erosion of the council's role in housing provision, and the creation of water authorities and the Scottish Environmental Protection Agency. The Commissioner has proposed the rationalization of the system by creating a single organization, the Scottish Commissioner for Public Administration. The Ombudsman has deliberately avoided setting standards for administration, as these would be difficult to quantify in a meaningful way. Here too, we were unconvinced that the ombudsman role meets the strict definition of regulation. Rather, it is investigatory, and seeks to obtain redress, but by the force of its argument rather than by enforcement.

CONCLUSIONS

Our objectives in this research were threefold – to describe the pattern of regulation of public service delivery in Scotland; to identify differences in Scottish practice; and to highlight prospects for change under devolution. However, our reading and our fieldwork combined to raise fundamental doubts about the term ‘regulation’ as applied in the study by Hood *et al.* (1998). This use of ‘regulation’ was derived from cybernetics and set it in the broader context of control over bureaucracy. The study found evidence of increased use of formal oversight, using standard setting, rules and targets which are non-negotiable, rather than competition, mutuality and contrived randomness. It sought to develop a ‘generic’ regulatory perspective, concerned with how regulatory bodies exercise authority over other public organizations through rules and standard setting, effect behaviour changes, and to identify a range of regulatory bodies in the regulatory landscape (Hood *et al.* 1998).

In our fieldwork, however, it became clear that developing a ‘generic’ perspective on regulation was a superficial exercise. Inside government there is a plethora of regulatory activities, but no single regulatory function or regulatory community, as was recognized in the Hood *et al.* study. Rather, it is more realistic to recognize regulatory elements *within* a number of separate supervisory functions, whether oversight, funding, inspection, audit or complaints investigation.

We did not find the application of the term ‘regulatory’ to be useful or relevant to analyse oversight relationships between departments and their agencies. The formalization of relationships for us was not regulatory, but more accurately termed performance management systems, around strategic plans, key performance indicators and annual reports, which operated as a bridge between such institutions and provided a basis for dialogue. We found few ‘pure’ regulators but a number of bodies whose regulatory function is one of several, including policy advice, resource allocation, service provision, or consultancy, advocacy and promotional functions.

We should expand on this point. Public service delivery bodies have always operated under regulatory frameworks, which are composed of statutory duties and resource controls. Our fieldwork shows that departmental oversight practice differs with the form of delivery body, with degrees of hierarchy in the relationships. These are more pronounced for executive agencies, less so for local authorities, and ‘light’ touch for higher education. Therefore we would argue that the notion of a regulatory state – in so far as it is applied to public service provision – is inappropriate. Moreover, we do not find the concepts of ‘regulation’ or ‘regulatory bodies’ either empirically accurate or analytically useful in understanding the pattern of relationships within policy networks. We see a need to distinguish between funding and co-ordinating departments within the executive and to recognize more clearly the ‘nodal point’ (Smith, Marsh and Richards

1995) of executive departments in policy making, resource allocation, and agency oversight. Such oversight arrangements have become more formal under the new managerialism (Pollitt 1993), but the scale of change in practice is less sweeping than has been suggested.

Within such performance management models of oversight, we have found differences of practice in Scotland. Scottish practice is less formal and less confrontational than the practice described in the Whitehall Study. Funding bodies have perhaps the strongest 'regulatory roles' in our fieldwork. However, inspectorates remain sources of quality assessment and policy advice. Auditors play both regulatory roles in terms of regularity audit, and promotional roles in terms of VFM audit. Ombudsmen did not seem to have any of the criteria necessary for regulation under the broad definition as they avoid standard setting, dealing with cases on an ad hoc basis. Executive oversight retains a 'light touch' approach, consistent with the consensual style of the Scottish Office through most of its history (Midwinter *et al.* 1991). Bureaucracies were keen to avoid a 'hard-nosed' approach to oversight, given Scotland's size, and the direct contacts possible in smaller policy networks.

The differences in practice identified in our research will probably grow under devolution, given the sheer scale of political change, in terms of numbers of ministers, committees and members of the Scottish Parliament. We have not found an 'organizational complex of regulators' (Hood *et al.* 1999, p. 226) in Scotland. Rather, regulatory functions are but one part of the process of governance, in which instruments of public provision remain the primary mechanisms of service delivery operating within more formalized performance management models, but in a way which reflects the accumulated experience of key actors in Scottish policy networks. Hecló and Wildavsky's (1974) concept of 'village life' retains a strong resonance in Scottish administration.

Finally, although we have argued against a generic concept of regulation and for a generic concept of performance management, we are sceptical over the prospects for this model in practice. Others have called it a managerial state (Clark and Newman 1991), and we share their views of the limits there are to a 'managerial calculus'. There are both organizational constraints from the division between policy making and service delivery (Judge, Hogwood and McVicar 1998), and informational limits to measuring performance that we fully recognize. Indeed, the value of such indicators has already been questioned by Members of the Scottish Parliament (Little 1999b). Our view is more simply that performance management is a concept which more accurately captures the practice of the oversight of public service delivery than regulation when defined as setting monitoring and enforcing service standards. The label 'performance management' reflects the reality of a relationship formalized around documentation, involving negotiations over targets, and the lowering of organizational autonomy in service delivery agencies.

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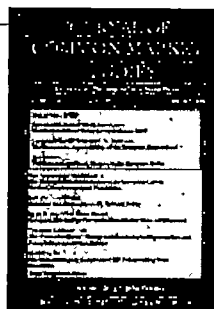
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W W W . B L A C K W E L L P U B . C O M



HOW NETWORKS EXPLAIN UNINTENDED POLICY IMPLEMENTATION OUTCOMES: THE CASE OF UK RAIL PRIVATIZATION

ANDREW GRANTHAM

How a government secures the implementation of its policies is one of the most interesting processes in public administration. The tendency of scholars is to ignore implementation and how it impacts on the form of policy, something which invariably changes once resources have been allocated to implementing agencies and the policy detail is addressed. Traditional 'top-down' (Pressman and Wildavsky 1984; Mazmanian and Sabatier 1981) and 'bottom-up' (Elmore 1979; Hjern and Porter 1981, Hull and Hjern 1983) analytical frameworks give only a partial explanation of outcomes. In making the case for a network approach, a typology of implementation networks is presented. The utility of this typology is evaluated in the context of one of the most complex privatization programmes attempted by any government: the privatization of British Rail (BR) between 1992 and 1997. In the case of the sale of one BR subsidiary train operating company, ScotRail, a variety of agencies with competing interests and acting in a politically-charged climate exchanged essential resources to deliver the policy, though not without generating unintended outcomes in the form of significant change to the policy and the agencies charged with implementing it.

INTRODUCTION

How a government secures the implementation of its policies is one of the most interesting processes in public administration. There is a tendency to ignore implementation and how it impacts on the form of policy – which invariably changes once resources have been allocated to implementing agencies and the policy detail is addressed. It is, moreover, not just a question of how the policy changes as it is implemented, but also the changing nature of the implementing agencies themselves. It is no longer possible to assume that actors will fit into some ideal model of the disinterested officials who execute policy agreed in a legislature. There are plenty of examples of policy implementation programmes that have been dependent upon the resources of many actors from both the public and private sector to challenge this view; but even where implementation is contained within the public sector, new agencies approach implementation using unrecognizable and unproven tools and procedures. In all such cases, implementation is contested and the output unpredictable.

This paper seeks to contribute to the debate on policy implementation in

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the context of one of the most complex of privatization programmes attempted by any government: the privatization of British Rail (BR) between 1992 and 1997. The agencies responsible for delivering the policy were numerous, and with BR being split into over 100 self-accounting business units, the vendors needed to attract many private-sector buyers in what was a highly charged political arena. The process caused the mobilization of opposition groups seeking to undermine the integrity of the nascent implementation procedure.

These dynamics will be explored with reference to the machinations over the privatization of one British Rail subsidiary, ScotRail. Of all the (25) train operating company sales, ScotRail was by far the most politically charged, and represents a triumph of regional political actors over central authority. In addition, however, it illustrates that the privatization process enabled strategic actors – in this case Strathclyde Passenger Transport Authority (SPTA) – to secure real investment benefits from bidders for its rail contract, and to effect a lasting structural change on investment in, and the delivery of, rail services in Britain's main conurbations.

The case study discussed is a complex story which does not lend itself well to explanation by applying existing theoretical models: either 'top-down' (Pressman and Wildavsky 1984; Mazmanian and Sabatier 1981) or 'bottom-up' (Elmore 1979; Hjern and Porter 1981; Hull and Hjern 1983). As will be seen below, the delivery of this policy depended largely on activity located in a series of distinct implementation networks, each with their own interests and resources, and each with their own objectives that eventually resulted in a highly successful implementation process. In order to capitalize on the explanatory potential inherent in the existing policy network literature, this paper will consider just three of these networks – Policy, Administrative and Opportunity networks – in the context of their role in the sale of ScotRail in 1997.

A FRAMEWORK FOR ANALYSIS

The network concept is used by British scholars to emphasize the stability and durability of a system's policy-making structures (Richardson and Jordan 1979). Börzel (1998, p. 258) recognizes the network concept as an 'analytical tool for examining institutionalized exchange relations between state and organisations of civil society. ...'. This institutional approach is exemplified by Rhodes' continuum on which are located five (ideal) types of policy network. At one extreme he locates highly integrated policy communities which enjoy considerable resources and actors play positive-sum games. At the other extreme are loosely integrated issue networks in which members possess few resources and outcomes tend to be zero-sum. Sandwiched between are professional, intergovernmental and producer networks (Rhodes 1988; Marsh and Rhodes 1992, p. 14).

Rhodes' network model stresses the centrality of the relationships between groups/agencies and government which he identifies as the *meso*

level. The importance of using the right analytical tools can be seen in Rhodes' (1988, p. 87) assertion that, '[t]he failure to appreciate that service delivery systems are complex, disaggregated and indeterminate has led to the failure of policies. The process of differentiation in government requires not only policies on substantive problems, but also on policies and procedures for managing differentiation (or institutionalising indeterminacy)'. This realization means that a more dynamic model than a strict power dependency framework (corporatism, for example) is needed to explore the terms of such relationships and the employed strategies that govern them.

Simply, then, a policy network 'is a set of resource dependent organisations'. (Rhodes *et al.* 1996, p. 368). Rhodes (1981, pp. 98–9) establishes five propositions informing analysis of intergovernmental relations:

- (1) organizations are dependent upon one another for resources;
- (2) the achievement of goals is dependent on organizations exchanging resources;
- (3) actors are constrained by other organizations within that policy space, but power is not equally distributed (Rhodes 1988, p. 93);
- (4) there is always a dominant coalition which employs strategies within known 'rules of the game' as a means of regulating the process of exchange;
- (5) variations in the degrees of discretion are a product of the goals and relative power potential of interacting organizations.

In addition, Rhodes identifies the policy network resources as: constitutional-legal, organizational, financial, political and informational (Rhodes *et al.* 1996, p. 368).

More recently and partially in response to criticism (Dowding 1995), Marsh has argued that policy networks should be viewed dialectically, such that actors within networks command resources which are structurally or organizationally determined. Decisions of this kind, where certain interests are privileged, contribute to the reproduction of structures, and the generation of a successful hegemonic project or accumulation regime. Crucially, however, this approach gives rise to the possibility of agency – independent strategic action which can lead to a restructuring of state (policy) structures as actors seek to overcome inherent privilege in the policy system (Marsh 1995; Daugbjerg and Marsh 1998; c.f. Jessop 1990). In other words, in the course of policy-making, strategic action sometimes occurs unconstrained by organizational rules and imperatives. This strategic action can result in an institutional change which shifts or erodes the extant hegemonic regime and leads to realignment of the privileges that ordinarily determine policy outputs.

NETWORKS AND IMPLEMENTATION

Implicit in the literature is the implication that policy networks function as implementation networks at the *meso* level (Hay 1998, p. 47; Rhodes 1992,

p. 63). With the notable exception of Mandell (1984), however, implementation studies remain wedded to top-down/bottom-up analyses, and stress the demarcation between policy and implementation (a more recent exception is John 1999). As policy delivery incorporates many more actors, such approaches have a declining utility. This is particularly evident in the new era of public service provision by contract, which relies on central (contracting) authorities placing adequate incentives before putative actors in the private sector such as grants and/or market guarantees to secure participation (after which regulatory policy making and control can be advanced).

The contention in this paper is that implementation networks should be considered as different entities to policy networks because the parameters under which actors negotiate their exchange relationships are different. For example, in the case of the implementation of complex policies, actor behaviour is often mediated by an enabling statute. The statute does not determine the exchange relationships because its meaning is contestable (and contested) as the case study below will illustrate. Moreover, for some writers (Stoker 1992; Strauss 1978), policy implementation can be immensely empowering and lead to a clash of purpose. Agencies can deploy their strategic resources independent of central control in the negotiation over, and interpretation of, rules, especially when the rules are themselves negotiable. In these instances, empowerment is particularly pertinent as certain actors may well seek 'nodality' by colonizing the 'implementation arena' (see below) in order to secure a position as a controlling hub for receiving inputs and sanctioning outputs (Rhodes 1988; Clegg 1989).

TYPOLOGY

The value of the policy network typology is argued convincingly by Rhodes (1997) and Marsh (1998). The same value can be ascribed to any typology of implementation networks where a process of continuous policy-making re-shapes the form of the implementation output. For Rhodes, 'the distribution, and type of resources within a network, *explains* the relative power of actors (individuals and organizations). The different patterns of resource-dependence *explain* differences between policy networks.' (emphasis in original, p. 11). This is echoed and developed by Marsh who argues that if networks are to be used to explain (policy) change, there is a need to characterize the difference between them. A typology offers a clear characterization and enables the analyst to locate the resources that are exchanged within (and between) networks: they are independent variables (Marsh 1998, p. 13).

There are three key implementation networks related to the episode in the rail privatization saga that is the subject of this paper. The first of these is the crucial Policy Community, here used to represent closed networks which are highly stable and command predominantly legal-constitutional resources. Policy communities are largely made up of Whitehall actors

and/or key advisors. The second, Administrative Networks, are populated by low-discretion actors who operationalize the outputs of policy networks but who nevertheless command essential resources and are, therefore, potential veto bearers. The resources they control are largely organizational and by definition they employ particular expertises. What they bring to implementation are, ultimately, skills and knowledge that are beyond the competences of policy makers, but whose outputs are essential to the process as a whole. They are embedded in delivery agencies.

The third type of network is the Opportunity Network. The conceptualization of opportunity network is derived from the work of Koopmans and Duyvendak (1995) on resource mobilization in social movements. In this literature, the focus is on ascertaining why oppositional forces mobilize particular resources in preference to others. Significantly, they highlight the importance of resource exchanges being considered in the right context, what they call 'frame alignment'. In the social movement context, for example, constituents' perception of the relative chances of success impacts very greatly on participation (whether they be individuals or organizations). This is not just a function of the resources held by organizations whose issue it might be, but also the receptivity and/or weakness of respective governments on a particular issue. Notably, the anti-nuclear frame was an international discourse although some national governments and other pro-nuclear groups were able to compose more compelling discourses within European states such as France where nuclear power is the dominant mode of electricity generation (Koopmans and Duyvendak 1995, p. 244).

The term opportunity network categorizes actors who participate in the policy process in order to secure for themselves additional resources either in the form of direct handouts from the Treasury, an expanded operational base from which profits can be accrued, or a transfer of assets or resources from within or between cost centres. For the first two of these private-sector actors will participate only if sufficient resources are on offer and the dominant frame is adequately favourable to the project. Where the actors are from the public sector, their struggle for resources is additional to their regular administrative functions. Ultimately, they are strategic actors.

A distinction has been drawn between policy networks of the Rhodes model and implementation networks. Klijn (1997) offers a definitional bridge between the two. For Klijn, '[p]olicy networks are more or less stable patterns of social relations between interdependent actors, which take shape around policy problems and/or policy programmes' (p. 30). Arguably, at implementation, networks 'take shape' around implementation problems which have to be solved prior to the administrative acts that deliver the policy. Network actors seek to maximize their control over resources in any particular network. For example, where the resource is financial, actors manoeuvre to secure those additional resources for themselves subject to an evaluation of transaction costs (Williamson 1979). Dis-

tinctly, implementation networks have a tendency to be *ad hoc*, dynamic and/or of limited duration. Implementation networks, therefore, should be defined as patterns of social relations (action) between interdependent actors, which take shape around (secondary) policy problems and/or policy programmes. Actors in networks both exchange resources and negotiate or compete for control of (additional) resources towards generating an aggregated implementation output.

To sum up (Figure 1), the implementation arena is the space in which the statutory agencies develop and execute the provisions of a statute (in effect, constituting a policy community at implementation). This statutory space is 'breached' at the implementation interface either when the statutory agencies invite other organizations into the implementation arena to exchange resources, or when access is granted by external authorities such as the courts in cases of judicial review. The terms by which the actors exchange resources in this way is affected by the frames which inform actors' strategic action. Finally, the frames are the dominant interpretations of the policy process held by non-core actors which has the potential to mobilize critical resources either against or for the policy.

The task for the second part of this paper is to illustrate the utility of this approach in explaining the outcome of the eventual sale of the ScotRail train operating franchise in February 1997. The relative power of the actors is examined through a series of disputes over past investment (assumption deed payments) and transfer payments between Whitehall and sub-central government. Notwithstanding these complications, the context is a particularly interesting variable; in this case, local government reorganization in Scotland being orchestrated by actors in another policy sphere and whose outputs became an essential part of the rail privatization sequence.

THE PRIMARY ACTORS

The Railways Act 1993 created two new statutory actors: The Franchising Director/Office of Passenger Rail Franchising (OPRAF), and the Rail Regulator/Office of the Rail Regulator, both of whom were permanent

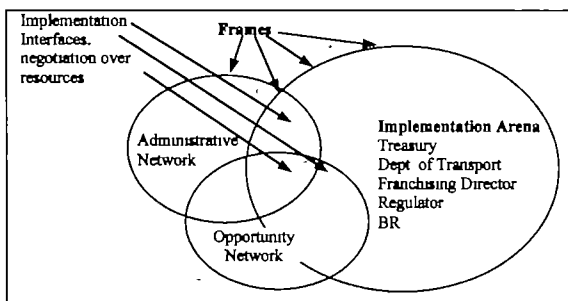


FIGURE 1. Interactions between policy, administrative and opportunity networks and core implementing agencies (policy community) in an implementation arena

members of a policy community centred on the Treasury and the Department of Transport (DoT). Each of these actors sought to maximize their own power *vis-à-vis* one another (secure nodality) through discrete organizational/functional policy communities. For example, the Rail Regulator's Executive Committee acted as a highly effective policy community in the composition of the regulatory framework. The Executive Committee learned much from its members' experiences of other utility privatizations. Consequently, the Regulator's control over Railtrack – the regulated utility – is unparalleled amongst UK utility regulators. Each of these separate groups brought their outputs to the implementation arena for incorporation into the overall policy framework.

Equally, however, the seven regional passenger transport executives and authorities (PTE/As) were policy communities in respect of policy formulation and strategy. The extent to which they perceived themselves in this light differed between the seven authorities. Much depended on their perception of their resources *vis-à-vis* the actors in the Whitehall policy community, particularly legal-constitutional resources. The PTEs, as executants of PTA policy, were low-discretion actors in administrative networks. However, in this case their financial knowledge and informational resources were substantial. They were also members of a PTE (professional) group which exchanged information and identified areas of common interest. The political PTAs, on the other hand, were policy makers. In the case study they were members of a public-sector opportunity network by virtue of their realization that *new* resources could be appropriated through the bargaining process. The key members of the private opportunity network were the private-sector franchise bidders. For them, too, it was a question of appropriating largely financial resources and enhancing their own shareholder value through acquisition.

Why is the privatization of ScotRail important in the context of policy networks and policy implementation? First, the case study challenges notions of success in the implementation process. Success can be viewed as the completion of an implementation programme within a prescribed time-frame. The network concept, however, can be used to show that the process in aggregate is not linear, and that success can also be evaluated in terms of overall winners in the exchange of resources – that is, if the policy objective is genuinely about the improvement of service delivery. Non-linearity is explained by the changing distribution of resources amongst actors, and the strategies employed by them to achieve either a 'win-lose' or 'win-win' situation for themselves at implementation.

The case study also exposes the degree of uncertainty at implementation where new agencies are involved (both public and private) and where Whitehall actors no longer have a monopoly over legal-constitutional resources. SPTA used the courts effectively *against* the dominant coalition. The leverage at implementation is often in the detail. Moreover, this involuntary ceding of control over the implementation process raises a series of ques-

tions about managing implementation, predicting outcomes, and strategic leverage by network actors (resulting in structural change as an outcome). The willingness of PTE/As to act strategically rather than as administrative agents of the government in the case study, suggests that actors in the Whitehall policy community underestimated the value of the resources held by PTA sub-central government actors at, what appears to have been, considerable short-term cost to the Treasury (the long-term value of the process to the Treasury has yet to be fully determined).

Finally, the case study illustrates the extent of policy-making at implementation. It is argued that the outcome of the process was a fundamental change in the form of transfer payments between the Treasury and sub-central government (from aggregate grant to hypothecation). The privatization programme (coupled with local government re-organization in Scotland), therefore, acted as a strategic window for SPTA which was unanticipated by the vendors.

BACKGROUND TO THE CASE STUDY

In privatizing BR, the Treasury and ministers sought to transfer assets coupled with operational and investment risk to the private sector, and to liberalize access to the rail infrastructure and foster 'on-track' competition for both passenger and freight services. Crucially, this necessitated breaking the vertical link between infrastructure and operation that had defined BR's successful 'profit-centre' structure in the early 1990s. ScotRail, consequently, became a virtually asset-free BR subsidiary in April 1994. The infrastructure (track, signalling, stations, and maintenance depots) was transferred to Rail-track, and two rolling-stock leasing companies became the new owners of ScotRail's trains (the transfer of ownership was contested by SPTA).

SCOTRAIL

ScotRail's tangible assets after April 1994 were few. The company was defined by the contracts (a 'franchise') that gave it exclusive rights to provide train services over defined routes. The ScotRail franchise was an early contender for privatization because it was a discrete territorial operation whose sale would make a significant contribution to the attainment of the Franchising Director's declared objective of 51 per cent of passenger services in the private sector by April 1996. In letting the franchise, however, two Franchising Directors (the iconoclastic Roger Salmon and his successor, John O'Brien) encountered this privatization's most effective statutory obstacle, SPTA. Consequently, ScotRail was the last of the 25 franchises to be sold – being sold eventually on 25 February 1997.

SPTA came to this process having surrendered its bus operation after the industry was deregulated in 1986. In addition, Strathclyde Regional Council was in the process of being dissected in a similarly acrimonious fashion to that experienced earlier in England with the abolition of the metropolitan counties. This, in Scotland, was one of the compelling frames through

which the privatization programme was viewed. Moreover, in order to understand fully SPTA's position over privatization, one needs to know something about the Strathclyde rail network which was the most comprehensive urban UK network outside London. The development of the network owes much to ScotRail's first Managing Director, Chris Green. As General Manager of the Scottish Region of BR from 1979, he was instrumental in securing £400 million worth of investment from SPTA in the 20 years up to 1994. Green's management style and prejudices imposed themselves almost immediately on the sale process. His characteristic public criticisms (*The Herald* 12 January 1995) illustrate the extent to which members of the administrative network within BR remained unconvinced of the practicabilities of the project (rather than privatization *per se*). Despite major public criticisms of the privatization, Green told *The Herald* that the incumbent management would launch a bid for ScotRail even though over 1000 of the company's operational contracts remained to be negotiated. Less than a month later, however, after the intervention of the British Railways Board (BRB), Green resigned and was replaced by John Ellis, then Production Director at Railtrack (*The Guardian* 25 January 1995). Ellis managed ScotRail until its eventual sale through what was a turbulent period, especially on industrial relations.

The sale of BR's passenger businesses was, from the start, politically charged. In the first instance, three were selected for 'fast-track' sale. These acted as shop windows for OPRAF which was eager to foster a competitive bidding process as the best way of realizing both reduced Treasury support, and achieving investment gains (NAO 1996). After a year of trying, in December 1995, OPRAF finally announced the sale of the first franchise, South West Trains, to Stagecoach, the global bus operator. Two other franchises followed in quick succession, both going to management buy-out consortia. These apparent successes undoubtedly bolstered both the government and OPRAF. They generated the necessary momentum for the completion of the sale process within the lifetime of the Parliament (against expectation). In relative terms, however, the second and third group of franchises were straightforward. The sale of train services in Scotland (including Strathclyde) and in the English conurbations were more complex as they required the resources of a statutory public sector actor with political and strategic interests to be accommodated.

PTEs AND THE STRATHCLYDE PHENOMENON

The concerns for Scottish local government over rail privatization were many. In this paper, the key debate, and the one which Strathclyde PTE/A's strategic action had the greatest impact, was over security of funding for train operation. This is discussed in some detail below. However, there are a number of other issues over which the Strathclyde PTE officers also attempted to leverage concessions from Whitehall. These were:

- investment uncertainty (SPTA/E as large investor in infrastructure);

- compensation for effective compulsory purchase of locally-procured rolling stock and other infrastructure (through 'assumption deed' payments);
- the continued ability of SPTA to specify contractually service standards for sponsored services.

The PTEs were created to fund and plan public transport provision in the large conurbations outside London. Seven were created between 1968 and 1974, covering Merseyside, Greater Manchester, West Yorkshire, South Yorkshire, West Midlands, Strathclyde and Tyne and Wear. Strathclyde PTE differed from the six English PTEs in that it was funded by the Scottish Office and not the DoT and the PTA and the PTE were coterminous with one another (as had been the English PTEs prior to the abolition of the metropolitan counties in 1986). They were administrative actors and owners of essential resources (operational and financial knowledge), funds (operation and capital), and legal (knowledge and capacity to exercise a check on the process through the courts).

THE FINANCING OF LOCAL SERVICES – SECTION 20 AND THE MRG

In Scotland, the new financial 'money-go-round' (all actors remained in the public sector initially) after April 1994 increased the cost of support for SPTE-sponsored services from £30 million to £112 million – one-third of ScotRail's revenue. In aggregate, the £350 million provided by the PTEs collectively represented one-quarter of BR's total passenger revenue (TSC 1995, p. 110; *Financial Times* 17 February 1995). The Metropolitan Railway Grant (MRG) was a Treasury-initiated 'solution' to the funding gap experienced by PTEs used to paying marginal costs for access to BR's network. The MRG successfully defused a funding crisis and avoided the PTEs relinquishing their funding and administrative obligations towards the railways altogether. Essentially, it kept the trains running in these politically important urban centres. It was, however, temporary – available for one year until a new funding formula could be devised that was less onerous to the Treasury.

TABLE 1 *Increased costs for PTEs 1993/94–1994/95*

Authority	Support 1993/94 (£m)	Support 1994/95 (£m)	% increase
Greater Manchester	28	74	164.4
Merseyside	25	60	140.0
South Yorkshire	9	20	122.2
Strathclyde*	32	111	246.9
Tyne and Wear	11	17	54.5
West Midlands	18	40	122.2
West Yorkshire	20	51	155.0

Source. Derived from Transport Report 1996, p. 6

*TSC 1995, pp. 50–51

Prior to April 1994, the PTEs contracted directly with BR to supply train services funded by the Revenue Support Grant, colloquially known as the Section 20 'Bolt-on' (Transport Act 1968). However, the new formula sought to incorporate the additional costs into the Department of the Environment's Standard Spending Assessment (SSA) for local authorities (Grant Aided Expenditure in Scotland). Until 1990, the PTAs were precepting bodies (Wilson and Game 1994, Ch. 9), but the Local Government Finance Act 1988 relieved the PTEs of these powers. The government claimed that the precept eroded accountability and prevented member authorities from seceding from the PTAs (*HC Deb*s, WA, Vol. 125, Col. 850).

As a result of the Community Charge debacle, the offending legislation was repealed in 1992, but the PTEs did not regain their precepting powers. After the abolition of the metropolitan authorities in 1986 (see Leach, Davis *et al.* 1991, pp. 110–11) the English PTEs were recast as purchasers of transport services for separate unitary district authorities as joint boards. Strathclyde escaped this change as it remained a unitary authority until local government reorganization in Scotland in April 1996 reconstituted SPTA as a joint board comprising 12 unitary authorities. Prior to this legislation SPTA had functioned as the Roads and Transportation Committee (R&TC) of Strathclyde Regional Council. Security of funds, therefore, had simply not been an issue.

The English PTE/As were left with what has been described as 'the Marsham Street problem' (TSC 1995, p. 113). The new funding arrangements reflected a conflict between the DoT and the Department of the Environment (DoE) each with a stake in the outcome. While the DoT preferred a transparent allocation of railway funds to the districts to be levied by the PTE, the DoE sought to maintain a high element of local accountability for spending in the metropolitan areas. The levying process offered a mechanism to do this. However, under the original formula, railway support money was to come – through the districts – from a miscellaneous 'other services block' of grant (covering 31 different services). The districts were not statutorily obligated to pass this on to PTEs. The levy also counted against Council Tax capping limits leading to an anticipated breach in most districts' budgets (TSC 1995, p. 226–8; Wilson and Game 1994, pp. 152–6). Consequently, the issues were beginning to *transcend* the normal administrative network activity, and were beyond the management of any single network actor. A strategic interest in the guise of a new financial regime inevitably raised the political salience of the funding mechanism for the PTAs. In response, the DoT was to argue that: 'Central government would . . . aim to make the necessary adjustments to the capping regime to ensure that the new arrangements would not increase the likelihood of MDCs being capped.' (TSC 1995, p. 224). The DoT's assurances did not, however, satisfy the PTAs.

With these complications in mind, it was not surprising that the Franchising Director's internally-generated service specification – known as the Pub-

lic Service Requirement (PSR) for ScotRail – issued on 14 September 1995 – omitted all services within the Strathclyde PTE area, indicating both his failure to resolve the funding dispute, and SPTE's resolve on the issue of service specification. However, the PSR was generous as it secured 95 per cent of ScotRail's non-Strathclyde services – considerably more than any other published PSR at the time. This graphically illustrated ScotRail's dependence on subsidy and the limited scope for service innovation once in the private sector. In implementation terms, the publication of a draft PSR generally heralded a six to eight week consultation exercise followed closely by two months of bidding on or around it. PSRs, therefore, were, ordinarily, reliable indicators of progress in the sale process.

Prior to franchising, the BRB was placed in the onerous position of being legally responsible for providing the services without necessarily having the funds to deliver them. The MRG secured services for one year but, as the financial year progressed, all of the PTEs had to commit themselves to further support with no guarantees that they could provide the money. In Strathclyde, the Chair's Sub-Committee had the task of evaluating the funding dilemma. In discussions with the BRB on 21 March 1995 – approaching the end of the first year of MRG – the PTE argued that it could not enter into long-term funding commitments and that funding would be provided on a month-by-month basis until the outstanding issues had been resolved (SPTA Chair's Sub-Committee minutes 23 March 1995). This was both an administrative question and a strategic resource issue.

Despite an extension being conceded by the DoT, time was in acute short supply. Under Section 20, PTEs were required to give the BRB ten months' notice of withdrawal of funds. All PTEs, therefore, had to secure funding from their PTAs by 31 May 1995 if they were to contract with BR for services beyond the year 31 March 1996 (*Local Government Chronicle* 2 June 1995). The PTEs were armed with a comfort letter from the Railways Minister, John Watts, which offered adequate security for six of the PTAs to agree a contract with BR. Greater Manchester broke ranks and withdrew, transferring their service commitments to the Franchising Director. Greater Manchester had ceded control over service delivery and relinquished a claim over the financial resources that purchased them. The extent to which the other PTEs would be strategically undermined in their bargaining with Whitehall after Manchester's withdrawal remained to be seen.

The R&TC Chair had considerable decision-making powers delegated to him and became the dominant network actor. Indeed, such was the pace of implementation at the time that the PTA expected to be in a position to consider the franchise agreement in November 1994 (in line with the ScotRail MD, Chris Green's prediction) with substantive work having been done by an officer group encapsulating the Chief Executive's Office, the PTE, and departments of Finance and Legal Services (R&TC, minutes 11 August 1994 15(2)(ii) and (iii)).

Fourteen months on, however, and with no agreement, OPRAF's senior

officials realized that a more sympathetic strategy was required if Strathclyde PTA was to be incorporated fruitfully into the implementation arena. OPRAF conceded that although the franchising process would be modelled on that now successfully deployed south of the border, the work should be devolved to a franchise team working from Edinburgh and Glasgow. In October 1995, Patrick Hetherington was seconded to OPRAF from the Scottish Office. Hetherington was an economist with considerable experience of privatization (having worked on the sale of the Scottish Bus Group in 1989), Scottish local government, and transport provision more generally. He was also highly respected by Strathclyde PTE officers. As one senior PTE officer noted, 'he knew the political system. It was an issue about power and he understood that, and he knew how to access the ministerial machine.' (Interview 18 June 1997). Hetherington and his Franchise Executive drew on expertise held by other teams at the central organization, including one with a specific PTE remit to orchestrate some kind of congruence amongst the PTA franchising contracts. However, the buck, ultimately, stopped at the door of the Deputy Franchising Director in London.

ATTRITION

Strathclyde PTA was by this time chaired by Charles Gordon, a shrewd political actor and former NUR official (see *Scotland on Sunday* 25 August 1996). SPTA had no intention of ceding control over its rail services along with the remaining five English PTEs. Indeed, the PTA Chair sought to extract *maximum* concessions out of the government in return for his signature on the ScotRail franchise agreement. Crucially, however, without a long-term and viable solution to the funding problem, OPRAF could not complete the franchising programme and SPTA would not discuss the terms of a franchising agreement. PTEs were to be signatories to franchise agreements covering services provided by five train operators. OPRAF, meanwhile, had been reminding the DoT about the implications for implementation of an unsatisfactory funding mechanism (Interview with OPRAF official December 1996). It was becoming increasingly clear that the DoT would eventually have to concede a permanent MRG.

Martin Harrison, Rail Officer at Merseyside PTE, recalls the loss of the MRG and its earlier incorporation into the SSA:

It was a bit of a surprise that it disappeared. We really wondered what was the point of actually removing it. Why would they want to upset us at actually a key period in the franchising process? They dumped MRG and have now come back with SRG [special railway grant] which is really 100 per cent funding ... It's amazing ... Somebody must have made a decision ... (Harrison 1997)

The SRG was directly attributable to negotiations over the ScotRail franchise. SPTA in the end took the strategic view that privatization represented an opportunity to make good 'Section-20' losses incurred over successive

years, in which the PTA had seen some £33 million added to the local tax burden. Funding to 100 per cent, therefore, was their guarantee against further burdening local taxpayers. However, the PTE group acting as an administrative network sought a return to the security of the precept. Subsequent arguments offered by Gordon that he couldn't guarantee that SPTA member authorities would transfer the requisite sums to the PTE were seen by OPRAF as being interesting though specious (Interview with OPRAF official June 1997).

Gordon and his PTE officers remained hawkish and threatened to veto bids from Stagecoach, FirstBus and National Express by advocating a referral to the Mergers and Monopolies Commission (MMC), as all had substantial bus interests in Scotland. With a transfer deadline of 31 March set by the DoT, this threat was a real one. OPRAF advised both Stagecoach and National Express to seek guidance from the Office of Fair Trading before proceeding (Scott 1997). However, John Taylor, a Department of Trade and Industry (DTI) minister, intervened and announced the reference of the Stagecoach bid to the MMC should it win the competition (*The Herald* 29 January 1997; DTI 1997).

Despite the gradual recruitment of PTAs to the franchising process (Merseyside PTA was the first to sign a franchising agreement in December 1996), SPTA opted out of negotiations with OPRAF between August and October 1996. Again, a 'resort to legalism' was contemplated over a clever manoeuvre by OPRAF which enabled the ScotRail franchising team to issue an Invitation to Tender despite the PTA's failure to approve the PSR (SPTA minutes 4 October 1996). By November, however, there was a new strategic imperative informing Gordon's and the PTE's participation. This was the realization that only franchising could deliver the new rolling stock that SPTA sought for its services, and that failure to complete the franchising process would potentially leave ScotRail as a rump public-sector operator subject to public-sector financial constraints. Essentially, the interests of the PTA were now best served by a privatized ScotRail.

Fresh negotiations between OPRAF and the PTE coincided with the appointment of a new Franchising Director, John O'Brien. Gordon and O'Brien met privately on 3 December 1996 to discuss and agree the final concessions to the PTE necessary to clear the way for a swift completion of the bidding. Final bids were received on 21 January 1997 and National Express was announced as preferred bidder on 10 February. The agreement of the PTA, however, remained to be secured. A meeting scheduled for 7 February was put back as the PTE waited for recommendation of the deal by KPMG, SPTA's financial advisers. On receipt of this document the franchising programme was completed.

DISCUSSION

The sale of the railway passenger services under the Railways Act 1993 was always going to be difficult as it was a highly differentiated multi-actored

process. It could not be implemented by civil servants in a traditional top-down sense: it required the acquiescence of BR managers with their operational knowledge; a new untested set of operational contracts and regulations composed by two new statutory actors, OPRAF and the Rail Regulator; and the incorporation of private-sector players in a high-risk financial and political game (both transport operators and providers of finance). The sale of ScotRail, however, statutorily incorporated an actor (from an administrative network) with strategic ambition at a time of political uncertainty resulting from the abolition of Strathclyde Regional Council. The incentive to exercise a veto over the sale of ScotRail with which it zealously contracted, was tangible and probably contributed to the failure of the early negotiations in 1994. However, as the sale became ever-more elusive for OPRAF and the government, the strategic leverage afforded the PTA by the process resulted in an enhanced status within the implementation arena, and considerable concessions from the policy community centred on Whitehall. The beneficiaries, moreover, were the seven PTEs despite their not having acted collectively and in unison on key issues such as the MRG and future investment.

At the heart of the implementation network model is the notion of competing networks acting in an implementation arena mediated by a statute which incorporates non-core actors as and when their held resources are needed. The policy community actors such as the Treasury and sponsoring department close off the arena – but this can only ever be partial due to the ability of non-core actors in other networks to breach the implementation arena either through the courts (by invoking judicial review of the interpretation of the statute), or by fuelling the oppositional frame through the media which has the potential to force some amendment to the policy at implementation. The networks are competitive in the sense that members internally compete for the same resources (opportunity network members), or that their objectives are conflictual (the Treasury *vis-à-vis* the Department of Transport within the policy community, or SPTA and the Treasury between the policy network and the opportunity network). Table 2 summarizes the main objectives of actors in the implementation arena dealing with the sale of ScotRail.

SPTE/A was primarily an administrative actor with a role set out in the statute. It differed from other administrative actors, however, in that it had a political constituency on which to challenge the expectations of the actors in the Whitehall-dominated implementation arena. Moreover, having been written into the statute, it was difficult for the Whitehall actors to strip SPTA of its implementation role even though such a move would have effectively exorcized SPTA's veto.

SPTA's challenge was informed by two elements. Firstly, it was politically motivated in its opposition to privatization of the rail industry, the abolition of the Regional Council, and its fiduciary duty to constituents both in terms of securing adequate funding for future services in the region,

TABLE 2 *Objectives of key actors in implementation arena*

Actor	Networks	Objectives
Treasury	Policy, administrative	Reduced subsidy to railways
Department of Transport	Policy, administrative	Execute provisions of statute while maximizing control over use of railway assets (by regulation)
Rail Regulator	Policy, administrative	Through policy and instruments, maximize control/power over regulated utility: railtrack (owner of infrastructure), secure nodality
OPRAF	Policy, administrative	Sell rail operation franchises, maximize value of sales; limit regulation over deployment of assets
SPTE/A	Administrative, opportunity	Maintain control over assets deployed in the provision of rail services which it funds/sponsors; ring-fence existing financial resources/expand overall resource pool (for both operational and investment purposes), maximize value of assumption deed payments
Scottish Office	Administrative	Secure high level of rail service provision in Scotland
ScotRail	Administrative, opportunity (through MBO)	Retain control over assets; achieve transfer to the private sector

and also achieving compensation for the loss of assets arising out of the transfer of ownership to rolling stock companies and Railtrack. Secondly, SPTA had a strategic agenda defined in terms of the concessions it claimed from Whitehall (Table 3) coupled with a commitment to maintain a pre-eminent role in the determination and provision of transport services in the region in direct contrast to the experience of PTEs over the sale of their bus interests in the late 1980s. SPTA was, ultimately, to force a significant change in the form and outcome of the implementation exercise. In doing so, it locked the PTA into the administrative and policy process for the immediate future. The strategic interest, however, transcended the narrow policy sphere of rail transport provision in Strathclyde. The debate about the MRG was used by SPTA to leverage funding guarantees for the new SPTA with its multi-authority membership (joint board): funding commitments might prove disproportionate for member authorities where service provision straddles new local government boundaries. The most effective way of achieving buy-in for the members of the new joint board, arguably, was to win unambiguous, new and ring-fenced funding from the Treasury. The SRG is such a funding mechanism. In addition, SPTA was able to make good considerable losses that had resulted from a real reduction in grant allocations over the previous few years. The SRG, therefore, significantly alters the power differential between the Treasury and the PTEs in favour of the latter.

TABLE 3 *Winners and losers in the ScotRail sale*

Concession	Winners	Losers
100 per cent funding (SRG)	PTE/As DoT Scottish Office OPRAF ScotRail	Treasury
PTE rights over service specification	PTE/As DoT Scottish Office	OPRAF Treasury
PTE resources for new rolling stock	PTE/As DoT Scottish Office OPRAF ScotRail	Treasury
PTE investment in railway infrastructure	PTE/As DoT Scottish Office OPRAF ScotRail Railtrack Rail Regulator	Treasury
Assumption deed payments	PTE/As	Railtrack Train leasing companies (new owners of rolling stock)

This achievement was conceivably threatened by the decision of Greater Manchester PTE to withdraw from the network as a result of the Treasury's failure to guarantee adequate funds for it to contract with BR beyond 31 May 1995 (the end of the MRG). In transferring its services to OPRAF, it was feasible to imagine a *de facto* abolition of PTEs and the neutralization of their vetoes. This weakness was not exploited, and Greater Manchester PTE re-entered the network to become a signatory to two franchise agreements. This is not the place to discuss why Greater Manchester PTE was different to other six PTEs; however, a traditional top-down analysis may certainly have predicted this kind of behaviour from a purely administrative actor without the funds to provide the service it is statutorily obligated to deliver. An analytical approach using networks enables one to consider more holistic explanations of outcomes, and why actors should take significant risks (organizational and personal) to retain what is in effect an administrative task as SPTE did.

Table 3, above, indicates the extent of SPTA/E's effectiveness as a network actor. This contrasts with the Treasury's short-term deficit resulting from the concessions (the longer-term benefits accruing to the Treasury from the sale of assets and the privatization of risk and investment responsibility remained as Treasury 'wins'). The table also shows that the winners significantly outnumber the losers. This is primarily because of the additional resources represented by the concessions; however, they also,

for the public-sector actors, secure another administrative resource, namely the continued regulatory involvement and control over assets – almost the opposite of the Treasury's policy objective.

It is also necessary to consider the outcome in terms of the efforts of certain individual actors who composed the strategy that outflanked the Treasury. Charles Gordon and his officers at the PTE had a tenacity and determination that overcame the pressures imposed on them from Whitehall. They were also immensely skilled campaigners. The timing of their legal actions (just prior to the flotation of Railtrack, for example) was a case in point. They also successfully contributed to the persistence and pervasiveness of the oppositional frame which provided a political legitimacy for their persistent non-conformance. They fuelled the sense that rail privatization was yet another attack on Scotland, rather than just the transfer of a few railway assets to the private sector. They also realized that had they acquiesced in Whitehall's privatization process, there would have been little opportunity to revisit the issues after the event.

Finally, it is necessary to consider whether the network approach really does offer a superior explanation of outcomes. The case study shows the relative importance of the monopoly of constitutional-legal resources for members of the policy community. Legal challenges can often be seen off, but not without compromising on time-scales and allocation of other resources. However, legal challenge, in combination with a constituency-backed claim for a funding neutral (or better) transfer mechanism, is a powerful armoury for any network actor. Here, therefore, lies a compelling explanation for SPTA's success. On the issue of policy change, there is evidence from the case study that the process by which the exchange occurs (non-linear, highly iterative) is affected by the number of actors bearing essential resources, and actors' ability to deploy them strategically (aided by a complementary frame and adequate statutory rights over the resources, etc.). Sub-central government, moreover, as executant of central government policy, is often relatively powerless at implementation as its rights over the resources are a concession from central government. SPTA, although constituted by statute, has an alternative power base from which it claimed its exclusive rights over its held resources.

CONCLUSION

The privatization of the rail industry in the UK was a prolonged process. The veto bearers were many, not least the administrative actors who were the owners of operational knowledge (BR managers and PTEs). The BR managers, after early objections to the form of the privatization, collaborated fully in the process. Some of them became wealthy as a result. The PTEs, however, were informed by the political PTAs, whose interests in rail privatization, with one exception, were strategic. SPTA, in particular, exploited the leverage presented by the financial resources it controlled,

and the operational and political expertise within, to win significant concessions from the Treasury.

It has been argued that a top-down analysis of the process would, if applied, have failed to explain fully the form of the outcome. This contrasts with a network approach whereby actors can be aggregated into implementation networks which are determined by the type of resources they bring to an 'implementation arena', and their objectives in doing so. This approach makes it possible to correlate resources with outcomes and to consider the effects of other variables such as 'oppositional frames' and political will and know-how.

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EX-OFFENDERS, THE LABOUR MARKET AND THE NEW PUBLIC ADMINISTRATION

DEL ROY FLETCHER

Policy makers are increasingly recognizing the importance of helping ex-offenders into employment. This article outlines the disadvantages faced by those with a criminal record in the labour market and evaluates several approaches to meeting the needs of ex-offenders seeking work. It finds that, despite recent policy developments, the changing nature of British public administration is undermining the ability of practitioners to respond appropriately to the needs of ex-offenders. The article concludes that the real concern of policy makers is to show that they are doing something about the social context of criminal behaviour while at the same time drawing attention away from the increasingly centralized and authoritarian nature of our public agencies.

INTRODUCTION

Jack Straw, the former UK Home Secretary, has declared that: 'a job is the best help that any ex-offender can get to avoid returning to crime' (quoted in NACRO 1997) and made a commitment to double the number of prisoners gaining employment on release. Similarly, the UK government's Social Exclusion Unit is making recommendations for reducing unemployment amongst prisoners on release. These concerns have informed three key policy developments over the last decade. First, the latest Three Year Plan for the Home Office which prioritizes improving the access of ex-offenders to the labour market as a means of facilitating their rehabilitation and resettlement. Second, a Probation Circular (40/1994) which required each Probation Service to establish a policy and strategy for its work in the employment, training and education of ex-offenders. Finally, the National Framework Document launched in 1998 that committed the Employment Service (ES), Probation Service, Prison Service, Training and Enterprise Councils (TECs) and the Benefit Agency to establishing local agreements to improve the employment prospects of ex-offenders. By the end of 1998, 112 of the 117 ES district offices in England and Wales had established local agreements involving 52 probation services, over 100 prisons, 129 benefit offices and 63 TECs (Taylor 1999).

However, with a few notable exceptions (see, for example, Roberts *et al.* 1996 and Downes 1993) relatively few evaluations of initiatives designed to help ex-offenders find work have been published. This article outlines

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the disadvantages faced by those with a criminal record in the labour market and evaluates the strengths and weaknesses of several different approaches to re-integrating ex-offenders through work. It finds that, despite the increased focus of policy makers on helping ex-offenders back into work, the reality is that a reinvented public administration is increasingly limiting the ability of practitioners to respond appropriately to their needs. The author concludes that the real concern of policy makers is to show that they are doing something about the social context of criminal behaviour while at the same time drawing attention away from the increasingly centralized and authoritarian nature of our public agencies.

The article is based on research undertaken for the Joseph Rowntree Foundation. The study comprised three distinct, but inter-related stages. At the outset, a literature review was used to identify the barriers faced by ex-offenders in the labour market. A series of formal meetings were then held with representatives of 20 key members of the policy community. These meetings provided an opportunity to collect data on the nature and scale of local labour market initiatives for ex-offenders and to identify possible case study material. Finally, five case studies chosen to exemplify different approaches to labour market re-integration were evaluated. The case studies examined the operation and impact of projects in practice and involved 26 interviews with ex-offenders, 10 interviews with project managers, 12 interviews with training staff and 15 interviews with referral bodies and partner organizations.

THE POLICY CONTEXT

In April 1998 the UK government introduced the New Deal which lies at the heart of its strategy for tackling unemployment and social exclusion (Peck 1998). The Employment Service (ES) was given lead responsibility for delivering the New Deal, working in partnership with others in the community. There are now six main New Deal programmes, including initiatives for unemployed young people; long-term unemployed adults; lone parents; disabled people; people aged 50 years and over, and for partners of the unemployed. The New Deal operates within a wide range of other welfare-to-work policies, including the National Child Care Strategy, tax and benefit changes intended to 'make work pay', the National Minimum Wage and various area-based initiatives such as Employment Zones.

There has been a shift in most welfare-to-work policies from voluntarism towards a greater use of compulsion. This is particularly evident in the New Deals for unemployed groups. Claimants lose two weeks' benefit for a first refusal of an appropriate place on the New Deal for Young People, and four weeks for a second occurrence (DfEE 1997, p. 2). Crighton (1998) notes that the accent on compulsion contradicts the findings of evaluations of previous labour market programmes which stress the importance of voluntary participation. Convery (1997) argues that the quality of options available under New Deal should be the overriding motivation for partici-

pation, not the threat of benefit sanctions. Theodore (1998) sees the New Deal as heralding a shift from the welfare state to a Schumpeterian workfare state. This is said to be signalled by the punitive nature of the programme and its attempt to recast 'supply-side' problems as the product of deficient work ethic.

Some of the particular problems faced by ex-offenders in the labour market are recognized by policy makers. The ES, for example, allows time spent in Prison or a Young Offender Institute to count towards the eligibility period for some employment programmes. It also allows ex-offenders early access to the New Deal for Young People. Moreover, the New Deal Task Force Working Group Report 'Meeting the Needs of Disadvantaged Young People' argues that the New Deal will only succeed if it reaches the most disadvantaged and disaffected (Adebowale 1998). The report identifies ex-offenders as one such 'severely disadvantaged' group facing 'multiple barriers' to employment.

THE BARRIERS FACED BY EX-OFFENDERS IN THE LABOUR MARKET

Ex-offenders are a significant group in the labour market. It has been estimated that they may constitute up to one-third of the working population (Home Office 1995). More than five million people in the UK have convictions for crimes that could have involved imprisonment (IPD 1999). Ex-offenders are much more likely to experience long-term unemployment. A survey undertaken by the National Association of Probation Officers (NAPO 1993) involving a sample of 1331 people subject to criminal supervision, drawn from 19 cities and rural areas in England and Wales, found that 55 per cent had been unemployed for more than one year. At the time of the survey one-third of all unemployed persons in England and Wales were long-term unemployed, whereas in the sample over two-thirds (67 per cent) of those who were unemployed were long-term unemployed. This proportion rose to 80 per cent in cities such as Newcastle, Birmingham and Liverpool.

Ex-offenders face multiple barriers to employment. These include:

- employer discrimination;
- poor basic skills and a lack of qualifications;
- a lack of recent work experience;
- low self-esteem, behavioural and health problems;
- problems of poverty and debt; and
- insecure housing.

Employer discrimination

The current legislative framework for the recruitment of ex-offenders is provided by the 1974 Rehabilitation of Offenders Act (ROA) which allows them to consider certain offences as 'spent' after a period of time that varies

according to the nature of the sentence and the age of the offender at the time of conviction (Apex Trust 1990). It is illegal for an employer to discriminate against an ex-offender on the grounds of a spent conviction. It is important to recognize that the Act does not enforce the disclosure of criminal records. There is no legal requirement, for example, for the disclosure of unspent convictions if an employer does not seek this information.

Those working with ex-offenders have made three main criticisms of the Act. First, many ex-offenders are unaware of the provisions of the ROA and do not know when their convictions are spent, or when and how to disclose them to employers. Second, many rehabilitation periods are too long. A large majority of adults, for example, find that their convictions take at least five years to become spent. Finally, convictions leading to a prison sentence of 30 months or more can never become spent. This contrasts with practice in most other European countries where all criminal convictions can become spent after the relevant rehabilitation period (NIACRO 1996). It is against this background that the UK Government has recently announced a review of the ROA.

Part V of the Police Act (1997) retains the protection of individuals afforded by the ROA and introduces three levels of disclosure depending on the type of work sought (see below). A new body, the Criminal Records Bureau, will issue the disclosures. It is proposed that individual job applicants apply to the Bureau for a disclosure, which is expected to cost about £10 and will be borne by the individual applicant. The government expects the Bureau to be fully operational by Autumn 2002, bringing in the following:

- Enhanced disclosures will become available for posts involving significant contact with children or vulnerable adults. All enhanced disclosures will involve an extra level of checking with local police force records in addition to checks with the Police National Computer and government-held lists, where appropriate.
- Standard disclosures are primarily for positions that involve regular contact with children, or vulnerable adults. They will contain details of all convictions on record including 'spent' convictions and details of any cautions, reprimands or warnings.
- Basic disclosures are for all other types of occupation not covered by the higher level disclosures. They will show all convictions that are not spent under the ROA. Any employer can ask a job applicant for a copy of their basic disclosure.

When fully implemented, the Police Act will permit much broader, less restricted access to the criminal records of individuals. Under previous legislation, employers were not allowed to check whether prospective employees had a criminal record, with the exception of those involved in work with children or with national security implications. Most concern surrounds the introduction of basic disclosures. Although the legislation

does not enforce the disclosure of criminal records, the pressure on job applicants to produce a basic disclosure may be considerable. Consequently, many fear that this will facilitate unrestricted vetting and discrimination. Tony Benn voiced these concerns when he said 'We will create a new underclass of unemployable people with convictions' (quoted in Uglow and Telford 1995, p. 5).

At present, most employers ask job applicants to disclose their criminal records even though they are ill prepared to deal with disclosure. The studies undertaken by Conalty and Cox (1999) and Buffery (1998), for instance, found that only around 10 per cent of the companies surveyed had policies that made specific reference to ex-offenders. It is, however, very unusual for job applicants to disclose criminal records because of the perceived risk of discrimination. Less than 60 out of nearly 22 500 applicants in the recruitment exercises examined by Fletcher *et al.* 2001 did so. This fear is substantiated by several pieces of research. In a survey conducted in 1990 by the Birmingham Chamber of Commerce, for example, 40 per cent of employers could think of no job that they would offer to a person with a criminal record (quoted in Lea Wilson 1992). Similarly, the Apex Trust (1991) study found that only 12 per cent of private sector respondents and 17 per cent of public sector respondents had knowingly employed an ex-offender in the previous year.

Employers themselves have high levels of anxiety about recruiting ex-offenders. Conalty and Cox (1999) suggest that employers are most anxious they might re-offend against the company and least concerned that they will prove difficult to manage or have a poor work attitude. In a similar vein, Pauly and Kay (1996) found that 84 per cent of over 200 company managers thought that there was a high risk of recidivism when recruiting ex-offenders. Many employers are also acutely aware of the negative publicity that might be generated. Some are concerned about the attitude of other employees toward an ex-offender in their workforce.

However, research suggests that employer behaviour is determined by individual moral codes regarding the seriousness of offences rather than the risks of re-offending (see Buffery 1998 and Conalty and Cox 1999). Sexual offences are usually considered the greatest barrier to employment. Violent offences, drug-related offences (supplying drugs), crimes against property and fraud often follow closely behind. At the other end of the scale, many employers appear to be tolerant of driving offences.

Poor basic skills and lack of qualifications

Poor school performance is a good predictor of later delinquency. Young people who truant or are excluded from school are much more likely to offend. The Audit Commission (1996) found that three-quarters of excluded pupils offend compared with one-third of those who are not excluded. Nearly half (42 per cent) of school age offenders who are sentenced in a youth court have been excluded from school, a further 23 per cent truant

significantly, and 20 per cent have a statement of special education needs, compared with 2–3 per cent of all secondary school children (Audit Commission 1996). Given this background, it is not surprising that many ex-offenders lack basic skills, never mind educational and vocational qualifications.

Information about basic skill levels among ex-offenders is not extensive. That available indicates that this group is amongst the most educationally disadvantaged. In 1985–86, a House of Commons Select Committee reported that, of 29 225 prisoners assessed for literacy, 6.2 per cent had a reading age of 8 years or less and 9.4 per cent had a reading age of 10 years or less. Among young offenders the problem was even worse. Similarly, the Adult Literacy and Basic Skills Unit (1994) found that 1 in 6 of the general population had serious problems with literacy but this rose to more than 1 in 2 of the inmates surveyed. Research undertaken for the Inner London Probation Service found that 52 per cent of the 150 offenders tested had severe reading, writing, memory, sequencing or other problems (Morgan 1996).

A survey of 190 ex-offenders found that 40 per cent identified inadequate qualifications as their main barrier to getting work (NACRO 1997). Only half of those questioned had any qualifications or exam passes and 79 per cent recognized that they needed additional qualifications to get work. Similarly, the National Prison Survey (Walmsley *et al.* 1992) found that 43 per cent of male prisoners had no qualifications compared to 34 per cent of the general male population.

Lack of work experience and participation in segregated networks

Another problem facing some ex-offenders is that periods of imprisonment may mean that they lack recent work experience and employer references. This is especially important for those who were imprisoned in their teens when the opportunities to enhance personal human capital are greatest (Lea-Wilson 1992). Lacking recent work experience often means that they do not have the personal skills essential for work. These skills include team working, presentation skills, interpersonal skills, time management, and learning to learn (DfEE 1996). The poor job record of many is a related problem. Almost 60 per cent of offenders surveyed in Greater London had not held a job with the same employer for two years or more (NACRO 1998).

Many people get jobs through their former work contacts. Armstrong (1993), for example, found that informal contacts are the most productive source of successful job leads. However, accessing jobs in this way is likely to be particularly problematical for groups such as ex-offenders. Gallie *et al.* (1994) have shown that such groups tend to be in segregated networks in which their partners, extended kin, friends, and most of their neighbours are also unemployed, which may be a significant factor in excluding them from the labour market. In addition, it is possible that those with infor-

mation about jobs are reluctant to take the risk of recommending individuals with criminal records to employers.

Low self-esteem, behavioural and health problems

Many ex-offenders are conscious of the stigma of their offending background. Their experiences can erode personal qualities which are essential for work, including self-confidence, assertiveness, taking responsibility and problem solving (DfEE 1996). These problems may be worse among those who have become unused to taking any personal responsibility. Yet employer surveys have suggested that personal qualities may be important in determining recruitment for lower skilled occupations.

Many need considerable encouragement before they believe they are likely to be offered employment. As a result, many ex-offenders search less actively for jobs than do other unemployed people. Some become 'discouraged workers', believing that they will never work again. Ex-offenders often make less use of the help that is available. Dyson (1992) found that many appeared alienated from mainstream employment and training provision. This reduces still further their likelihood of finding work.

Low self-esteem is often reflected in the behavioural problems affecting many ex-offenders. Many have problems with drug and/or alcohol addiction. A study of 739 offenders who had recently completed a community sentence or supervision period after release from prison found that 48 per cent had alcohol-related or drug misuse problems (Bridges 1998). The Hereford and Worcester Probation Service undertook a study in 1982 which demonstrated that alcohol-related problems were almost as common for female offenders (22 per cent) as for males (28 per cent).

Many have health problems which limit their ability to work. Pritchard *et al.*'s (1992) survey of 214 probationers between the ages of 18 and 35 years identified four health-related problem areas. These included illegal drug use (identified in 35 per cent of the sample), alcohol problems (46 per cent), HIV risk (15 per cent), and mental health problems (21 per cent). A measure of the extent of mental health problems is that 14 per cent of the sample had been involved in attempted suicide. Similarly, a survey of sentenced prisoners carried out by Gunn *et al.* (1991) found: 2.4 per cent of males and 1.1 per cent of females suffering from psychoses; 5.8 per cent of males and 15.4 per cent of females suffering from neuroses; 8.5 per cent of males and 16.1 per cent of females suffering from personality disorders; and 1 per cent of males and 2.6 per cent of females suffering from organic disorders.

Problems of poverty and debt

A study undertaken by NAPO, the National Association of Probation Officers, in 1993 revealed that almost 80 per cent of offenders were dependent upon means-tested benefits, compared with 20 per cent of the population as a whole. The same survey also revealed that over 50 per cent of people

known to the Probation Service were in chronic debt. Poverty is a related problem. Hughes (1991) investigated the links between poverty and offending in Somerset and found that 67 per cent of all probation clients were living in poverty. Furthermore, a substantial proportion had no income at all, and only 29 per cent were living above the poverty line.

Research undertaken by Fletcher (1997) for the Employment Service has shown that financial problems can constitute a labour market disadvantage in at least four main ways. First, they may constrain routes back into the labour market. Substantial savings are often necessary for self-employment. Second, the movement from benefits to paid work may involve transitional costs which deter some jobseekers from accepting job offers. Third, the unemployed may face difficulties in meeting the costs of attending job interviews, or the cost of tools, clothing or equipment necessary for work. Fourth, debt can lead the unemployed to believe that securing work might reduce their income as, once in work, creditors redouble their efforts to reclaim debt.

Insecure housing

A combination of unreliable family support, institutional experience and unstable relationships can make ex-offenders unusually liable to housing problems which they lack the personal and material resources to resolve on their own (Stewart in Drakeford and Vanstone 1996). Several surveys have shown that ex-offenders are more likely to be living in private lodgings, bed and breakfast premises, hostels or with relatives. The 1997 Prison Inspectorate Survey, for example, found that a quarter of young prisoners were homeless on reception. A study carried out by the Social Exclusion Unit found that one half of rough sleepers had at some time been in a prison or remand centre (1998).

Ex-offender perspectives

The author carried out 26 face-to-face interviews with ex-offenders. The three most commonly identified labour market disadvantages were employer discrimination (54 per cent), a lack of educational and/or vocational qualifications (42 per cent), and low self-esteem (27 per cent). After these came drug and/or alcohol dependency (19 per cent), health problems (15 per cent), lack of work discipline (15 per cent), and the low pay of the jobs on offer (12 per cent).

APPROACHES TO RE-INTEGRATING EX-OFFENDERS

Labour market initiatives must be based on an appreciation of the particular needs of ex-offenders. As we have sought to show, ex-offenders are a severely disadvantaged group experiencing multiple barriers to employment. This has three important implications for policy and practice. First, action is required not only to meet skill deficits and to combat employer discrimination, but in addition, a wide range of personal and social problems need

to be addressed. Second, a holistic approach is needed because it is not only a question of targeting unemployment but also dealing with the problems which serve as obstacles to taking on, or holding down, a job in the long-term (Otte and Schlegel 1992). Finally, reintegration must necessarily be a long-term process.

The research identified 190 local labour market initiatives for ex-offenders in England and Wales. Five projects were chosen as exemplars of different approaches to getting ex-offenders back into work. Their strengths and weaknesses were assessed during face-to-face discussions with the agencies responsible for implementing projects (including referral and delivery) and ex-offenders (see Table 1). These approaches should not be seen as mutually exclusive. Strategies to reduce the unemployment of ex-offenders need to be both broadly based and multi-faceted.

Linking mainstream probation activities and NVQs

In the north of England, a Cumbrian project sought to link the attainment of National Vocational Qualifications (NVQs) to probation activities as a means of helping ex-offenders back into employment.

The project encouraged some ex-offenders to see probation as directly relevant and gave them a measurable sense of success and progression. It also enabled the Probation Service to demonstrate its effectiveness in a very tangible way, by providing hard evidence that offenders subject to supervision achieve something. Probation officers also reported that the project was useful in strengthening and deepening their relationships with individual clients. In particular, one officer found that: 'The need to continually set tasks and motivate participants to achieve them has allowed me to develop a greater understanding of the strengths and weaknesses of some of my clients'.

However, this approach requires a cultural shift on the part of the Probation Service. Risk management and eradicating offending behaviour through the cognitive behavioural approach have become key features of probation practice. The latter stresses one-to-one work with offenders to analyse their behaviour. Insights are shared with the offender, leading to negotiations about various means of tackling offending related problems so that alternatives can be chosen. However, linking probation activities with NVQs represents a shift to a more task-centred approach. This is based on thorough assessment and monitoring systems so that an individual's progression can be measured. This culture is barely developed within the Probation Service.

Furthermore, it may be difficult to secure the commitment of probation officers for this work. Despite recent policy developments, 'employment work' is still not a high priority for some officers. In addition, many do not accept that there is a high degree of commonality between the use of NVQs and their usual approach to working with offenders. Furthermore, it was clear that the continual need to set tasks and motivate participants was very

labour intensive. A probation officer commented that: 'although useful, it [the project] was far too demanding of my limited time'.

More generally, the move towards case management within the Probation Service potentially undermines the approach. Case management is concerned with referral to groups, specialists and other agencies, and the management of referrals (Burnett 1996). The rationale for case management is that there are issues, like employment, that are important in terms of crime reduction, which can be best addressed by external agencies. However, the reality of case management is that it often results in greatly increased caseloads for probation officers and a reduction in time spent with offenders. This undermines the potential for the development of close relationships that are a necessary feature of linking NVQs with probation activities.

Creating jobs in the intermediate labour market

Finn (1996) defines the intermediate labour market (ILM) as waged or salaried full- or part-time jobs with training which are available to unemployed people for a limited period and where the product of their work has either a direct social purpose or is trading for a social purpose where that work or trading would not normally be undertaken. A project based in the Home Counties aimed to create profitable businesses that also had the social objective of employing ex-offenders. At the time of the evaluation it had not been possible to create any jobs in an intermediate labour market and so what follows is somewhat speculative.

The combination of work experience and training available through an ILM potentially provides a pathway back into the labour market that has several distinct advantages. It gives a period of employment in its own right, which helps to keep ex-offenders in contact with the habits of work and closer to the labour market. Participants acquire work experience and up-to-date employer references. In addition, training provides an opportunity for participants to improve their skills.

It is often very difficult to convince ex-offenders of the benefits of undertaking training because in the past it has not led to employment. The priority of many is to get into work. A particular strength of an ILM is that participants receive wages rather than benefit. This is likely to be an important element in motivating ex-offenders and breaking the culture of training being viewed as punishment for unemployment.

However, this approach is relatively expensive. The gross costs are considerably higher than other types of labour market intervention. This is perhaps not surprising given that wages are paid and participants receive assistance over a longer period. In addition, there are the material costs of the work undertaken. The project manager argued that net costs are more reasonable, as high gross costs need to be offset by the value of the work produced and the better job-entry rates achieved in comparison to other interventions.

The approach is also administratively complex and often hampered by the need for portfolio funding. Providers of such initiatives have to utilize funds from several different programmes, often with contradictory roles. It is the provider who bears the transaction costs and cashflow consequences of portfolio funding. This proved to be the main stumbling block in establishing an ILM. Displacement of other workers may also be a problem. However, this effect can be minimized by selecting those areas of activity which are not carried out by existing local enterprises because they are not sufficiently attractive to the private sector.

Using outdoor activities to re-motivate young offenders

In a project based in South Wales, the use of outdoor activities to re-motivate young offenders (14–25 years) was a distinctive feature. The transition from adolescence to adulthood is crucial in terms of subsequent labour market experiences and criminal behaviour. Shover's 1985 study, for example, found that the decision to move from an excitement-oriented phase of delinquency to a more risk-laden commitment to adult crime is taken at this stage. This suggests that diversionary initiatives might have maximum potency at this point in an offender's life cycle.

The chance to try exciting activities such as climbing and abseiling was attractive to many young people. Initially, many view such projects as a

TABLE 1 *Strengths and weaknesses of different approaches to re-integrating ex-offenders through work*

Approach	Strengths	Weaknesses
Linking mainstream probation activities and NVQs	• Makes probation more beneficial • Deepens relationships between probation officers and their clients	• Necessitates a cultural shift • Difficult to secure staff commitment • Move towards case management
Job creation in the intermediate labour market	• Combination of work experience and training • Receipt of wages	• Expensive • Administratively complex • Displacement
Using outdoor activities to re-motivate young offenders	• Focus on young offenders • Attractive and exciting • Important first step	• Not vocationally focused • Support is not sufficient • Creating new dependencies
The involvement of local communities as volunteers	• Fulfils a number of roles • Personalizes delivery • Challenges stereotypes	• Mismatch between volunteers and clients • Volunteers lack experience of paid employment
Encouraging employers to recruit ex-offenders	• Confronts discrimination • Accesses new sources of vacancy data • Strengthens link between participation and employment	• Long-term process • Seen as a reward for offending

free holiday and a chance to escape deprived neighbourhoods. A young offender commented that: 'It's the chance to do something different that really appealed to me'. The project sought to use such activities to change attitudes, and to develop personal and social skills that can be transferred to everyday life.

Most importantly, outdoor activities can provide an opportunity for individuals to experience success, and is vital in building self-esteem and confidence. The poor morale and self-confidence characterising some young offenders often underpin self-destructive behaviour such as drug and alcohol addictions and eating disorders. By building confidence and inducing participants to make a commitment to their own personal development the approach represents an important first step in the process of social and vocational re-integration.

However, activity-based projects are not vocationally focused. A lack of educational and vocational qualifications also need to be tackled. This places a premium on good links with other training providers. Furthermore, monitoring and evaluation of an individual's progress can assume less importance. Quite clearly, more vocationally based projects can focus on 'hard' outcomes such as numbers into jobs and this can give monitoring and evaluation a sharper focus. However, soft outcomes such as changes in attitude and in reconviction rates can be measured and used to provide some insight into the effectiveness of motivational provision.

The evaluation found that providers of such initiatives must be aware of the dangers of creating new dependencies in young offenders' lives. This is a particular problem when participants are those who are not destined to progress into other social provision. One participant, for example, noted that: 'I come down here nearly every day . . . I don't know what I'd do if it wasn't for this'. This underlines the importance of undertaking informed networking to allay the suspicions of participants so that they can make the best use of a wide range of services and opportunities.

The involvement of local communities as volunteers

In a project based in South Yorkshire, the distinctive feature was the involvement of volunteers to assist in the rehabilitation of ex-offenders. The evaluation identified three key strengths of this approach.

First, volunteers can fulfil a number of different roles. They can help to build the self-confidence of ex-offenders, assist with jobsearch activities and form filling and even accompany them to job interviews. Volunteers are probably best utilized in befriending ex-offenders and providing one-to-one support. They were also respected for their willingness to become involved voluntarily and for their informality. An ex-offender reported that, 'I really appreciate the fact that they are helping us because they want to and not because they have to do it'.

Second, the deployment of volunteers can help to informalize provision. The project manager reported that, 'Volunteers are able to provide more

time for one-to-one help than is the case with full-time employees'. In addition, some ex-offenders feel that they can confide in volunteers in a way that is not always possible with representatives of statutory agencies. Crucially, this can help to uncover the full range of an individual's problems, which is vital if they are to become successfully re-integrated.

Third, the deployment of volunteers can begin to challenge offender stereotypes and prejudice. A volunteer commented that, 'Doing this makes you realise that they [ex-offenders] are no different to the rest of us'. In the context of recent attempts to justify more punitive criminal justice policy by reference to popular demands, it was noticeable that close contact with offenders often produced more considered and rational responses.

However, it proved difficult to recruit volunteers representative of the wider community. It was, for example, striking that many volunteers were white, middle-class, middle-aged and female. In contrast, many of the beneficiaries were young, working-class men. This makes the process of matching volunteers to ex-offenders fraught with difficulty. Moreover, volunteering is popular because it offers an opportunity for volunteers to get back into the labour market. It is seen as a way of gaining the necessary experience to access courses and careers in counselling, social work and probation. Not surprisingly, many volunteers lacked experience of paid employment themselves. This placed constraints on the type of support that volunteers were able to give ex-offenders. In particular, they were often unable to give advice based on their own experience.

Encouraging employers to recruit ex-offenders

The South Yorkshire project complemented its work with ex-offenders by engaging at the outset with local employers. Research was undertaken into the recruitment practices of local employers relating to the employment of ex-offenders. An Offender Employment Forum was then established to provide a context for discussion. Most recently, looking at the practicalities of such a project, it has developed a business case for getting ex-offenders back into work.

This type of initiative addresses a key disadvantage faced by many ex-offenders in the labour market. Gill (1997), for example, suggests that obtaining work for ex-offenders may depend as much on eradicating ignorance amongst employers as it does on focusing help on ex-offenders. This requires confronting commonly held negative attitudes and stereotypes. The project attempted to do this by disseminating a number of positive messages about ex-offenders. It was, for example, stressed that most offences are old, one-offs, and usually occur during a brief phase of the offender's life. Furthermore, most ex-offenders are successfully employed and making a significant contribution to their companies.

The evaluation identified two further advantages of this approach. First, establishing closer relationships with employers means that projects are able to access vacancy information that might not appear in jobcentres. The

ES estimate that it is notified of just one-third of all job vacancies. The rapid identification of available job vacancies and prompt communication of these opportunities may increase the chances of an eligible ex-offender getting a job. Second, encouraging employers to recruit ex-offenders on their merit can strengthen the links between participation in projects and employment outcomes. This is important because participation in projects without the prospect of employment can further demoralize ex-offenders, compounding the problem of low motivation.

However, this approach represents a long-term process which is not well suited to the short-term nature of most funding regimes. The project manager complained that, 'Changing employer practice is long-term but our funding is strictly short-term'. Many small employers, for example, complain that they have neither sufficient time nor resources to look at these issues, which makes them difficult to reach. Furthermore, long-term effort is needed to change deeply ingrained attitudes. However, it also became clear that many project managers are reluctant to engage with their local business community because they feel that they have had little training or do not have the necessary skills.

Another problem was that such work can be viewed as rewarding criminal behaviour. This view can be countered by pointing out that it is illegal for an employer to discriminate on the grounds of a spent conviction. Nevertheless, a policy of employing ex-offenders may not be understood by some employees or people outside the company. Consequently, prior to introducing such a policy, staff and their representatives should be consulted and, where possible, their commitment to the policy secured.

THE NEW PUBLIC ADMINISTRATION AND THE RE-INTEGRATION OF EX-OFFENDERS

This article has noted the increasing focus of policy on helping ex-offenders into the labour market. However, a key finding of our research is that the changing nature of British public administration limits the ability of practitioners to meet the needs of offenders returning to work. A brief discussion of the ES and the Probation Service, two of the key actors, illustrates the point.

Rhodes (1997) describes the past 15 years as a permanent revolution for the British civil service which has led to the reinvention of public administration. Change has included bureaucratic disaggregation (or agencification); competition and using market mechanisms (most notably, the purchaser-provider split and market testing); and improving the quality of services (through the citizen's charter and responsiveness to consumers). Agencification or creating semi-autonomous agencies for operational management has been a key development. By December 1995, there were 109 agencies employing 67 per cent of the civil service (quoted in Rhodes 1997, p. 95). Each agency has a framework document which sets out its objectives and performance targets.

The ES is an Agency of the Department for Education and Employment (DfEE) which exemplifies a reinvented public administration where economy, efficiency, value for money, effectiveness, performance and accountability to the public predominantly conceived as taxpayers, have increasingly become guiding principles (Henkel 1991). Performance targets for the ES are agreed with the Secretary of State and are set out in an Annual Performance Agreement. These targets are operationalized at the Regional, District and Local Office levels. Furthermore, ES District and Business Managers receive a range of financial indicators to complement other information on outputs and resource usage. It is in this context that we can understand the Agency's increasing use of unit costs to monitor programme performance and the introduction of performance-related pay.

The ES was given lead responsibility for delivering the New Deal alongside its responsibilities for matching jobseekers to notified vacancies, counselling those looking for work and placing individuals into relevant employment programmes. However, our research identified four key features of the Agency's evolution which militate against the re-integration of ex-offenders into the labour market.

First, the ES has been instrumental in shifting UK active labour market policy away from training programmes and job creation measures to remotivation programmes focused on immediate labour market attachment. In particular, there is a strong emphasis on jobsearch assistance paralleled by incentives to accept job offers at low pay in the form of in-work benefits. However, immediate labour market attachment is not a realistic proposition for many ex-offenders. Action is needed not only to meet skill deficits and to combat employer discrimination but a wide range of personal and social problems need to be addressed as part of efforts to return ex-offenders to the labour market. Some individuals face such insurmountable problems that they will never work.

Second, the delivery of cost-effective services has become a key organizational objective. Furthermore, the continuing pressure to reduce operating costs and demonstrate 'value-for-money' can lead to inappropriate policy responses. The relative cheapness of jobsearch aids in comparison to vocational training programmes, for example, was a primary consideration in their growing ascendancy in the 1990s (Fletcher 1997). However, our research demonstrates that ex-offenders are amongst the most disadvantaged groups in the labour market. An effective policy response would be long-term and expensive.

Third, the high caseloads and target culture within which ES staff work can make it difficult to devote the necessary time to provide the individual support needed by ex-offenders. This problem is compounded by the high turnover of front-line staff which partly reflects their poor pay but may also result from the increasingly hostile attitude of some unemployed people towards the ES as it became increasingly focused on implementing a stricter benefit regime (see below). The negative attitudes of some ES staff

towards ex-offenders is a related problem. A 1996 survey of the attitudes of front-line staff, for example, revealed that nearly half believed that ex-offenders were not disadvantaged in the labour market and three-quarters felt that they got nowhere working with them (Fletcher, 1996). Typical comments included: 'I don't see why we should bend over backwards to help them it's not as though they deserve special help', and 'They have a big attitude problem which means that it is a complete waste of time working with them' (quoted in Fletcher 1996, p. 4).

Finally, the ES has implemented a stricter benefit regime which has alienated many ex-offenders. In October 1996 this approach led to the introduction of the Jobseekers Allowance (JSA). Eligibility for JSA depends upon an unemployed person entering into a Jobseeker's Agreement which is a compulsory condition of eligibility for benefit. An essential part of the JSA package is the introduction of a tougher set of benefit sanctions. In the period leading up to the introduction of JSA all ES local offices were subject to risk assessment. Many local offices now have closed circuit television cameras and employ security guards to minimize the risk of staff being attacked by claimants. The announcement that the ES and Benefits Agency are to be merged can be seen as a logical step in this development. The resulting Agency is to be called 'Jobcentre Plus' and has been hailed as an example of joined-up government which will deliver a modernized service for those seeking work. More tellingly, the Social Security Secretary, Alistair Darling, views the new agency as 'an essential part of our welfare reform strategy: changing the culture of the benefit system and moving from passive payment of benefit' (DSS Press Release 2000, p. 2).

The delivery of New Deal is taking place within the framework of compulsion established under JSA and reflects a shift in most welfare-to-work policies from voluntarism towards coercion. Much of the debate about New Deal has emphasized the strong sense of continuity with earlier policies. However, it is important to note that the way in which the programmes are being implemented represents a major challenge for the ES. Increasingly, the ES is being encouraged to provide a personalized service built on a better understanding of the needs of the unemployed. This is reflected in the delivery arrangements of the New Deal, where the use of personal advisers and plans tailored to each person's needs are key features.

Evaluations of New Deal programmes have highlighted the important role played by personal advisers. Millar (2000), for example, reviewed over 20 reports published by the ES and found that the New Deal's most important innovation was to assign a personal adviser to every participant. Furthermore, the quality of the relationship with the personal adviser had strong effects, both positive and negative, on experience of the programme. More significantly, she also found a tension between the welfare and control roles of the personal adviser which was heightened when compulsion was involved (Millar 2000).

Compulsion poses particular problems for ex-offenders. Ex-offenders are

often mistrustful of authority and bring extremely negative attitudes to the New Deal, something which must be changed if they are to benefit from it. It is, therefore, important that they are able to build relationships of trust with personal advisers. Yet compulsion often serves to reinforce negative attitudes and may result in reluctant and disruptive recruits being placed in the programme (Convery 1997). Furthermore, our research strongly suggests that depriving ex-offenders of benefit may increase their propensity to commit crime.

It is against this backdrop that our research suggested that many ex-offenders would seek to avoid participating in the New Deal. Some indicated that they would temporarily sign off the unemployment register because eligibility for New Deal is based on the duration of unemployment. Others indicated that they might move to different parts of the country. This seems to be borne out by recent experience. It was, for example, anticipated that the New Deal for Young People would be made up of a high proportion of ex-offenders. Many Probation Services predicted that approximately 20 per cent of those eligible for the New Deal for Young People would be on Probation Service caseloads. Consequently, many New Deal partnerships contracted with specialist agencies to provide Gateway services for ex-offenders. However, many are experiencing low referrals to specialist Gateway provision (Conalty and Cox 1999). Furthermore, research by Conalty (1998) suggests that just 5 per cent of the New Deal cohort in Lambeth were subject to supervision by Inner London Probation Service. This is a real cause for concern given the multiple barriers faced by ex-offenders in the labour market.

Bridges (1998) argues that during the last ten years the Probation Service has moved from being 'not a player' at all in the ex-offender employment world to occupying the pivotal role. A number of developments are cited. In December 1990, for example, the Home Office issued a letter to chief probation officers recommending that they establish local offender employment forums. In a similar vein, Apex Trust was funded by the Home Office to provide advice to the probation services of England and Wales on developing their employment work. However, the key milestone in this transformation was Probation Circular 40/1994 which required each Service to establish a policy and strategy for its employment, training and education activities. However, our research revealed three key aspects of the evolution of the Probation Service which undermine this aim.

First, it is important to note that policy does not necessarily change local practice. Despite the higher profile given to the labour market re-integration of ex-offenders, many of the probation officers interviewed by the study team gave employment work a low priority. Most felt unable to do anything to help the people under their supervision to gain employment, few recalled anything relevant from their qualifying training and few were aware of current advice and guidance circulated within their own service. Furthermore, many felt that ex-offenders were unemployable. A probation

officer in South Wales, for example, said, 'Many of the people on my case-load are second or third generation unemployed and quite frankly trying to get them into work is a waste of time'.

Second, since the mid-1980s, government has attempted to fashion a rational, cost-effective criminal justice system. Pitts (1992) views this as an attempt to move the official discourse of crime out of the political arena into a depoliticized and, therefore, uncontested technical realm. As a consequence, the Probation Service has adopted managerial precepts describing its mission in terms of targets, minimum standards and performance indicators. These changes have prompted Kelmshall (1993) to ask whether all probation officers are now accountants. Most importantly this has created a culture which imprisons practitioners in a hierarchy of policies, guidelines and monitoring arrangements and robs staff of discretion so that they become competent functionaries (Nellis 1995). However, our research demonstrates that effective labour market initiatives are innovative not prescriptive. Moreover, their success largely derives from the initiative and commitment of key staff able to act in a reflexive rather than directive fashion.

Finally, and most importantly, the Probation Service has increasingly become focused on managing dangerous populations or 'actuarial justice' (Feeley and Simon 1994). From the late 1980s the Home Office began to question the content and form of probation training. It was thought that being trained alongside other social workers was reinforcing a tendency of probation officers to over-identify with offenders (Aldridge 1999). Following the recommendations of Dews and Watts (1994), the UK Home Office announced that Probation Rule 26 which had required probation officers to hold a UK social work qualification was to be rescinded. 'Macho-correctionalism' has instead emphasized personal hard headedness and confronting offending behaviour (Pitts, 1992). It is in this context that the cognitive behavioural approach to work with ex-offenders has flourished. Robinson (1999), for example, notes that a large proportion of probation officers now claim to use cognitive behavioural techniques. It is no coincidence that these changes have taken place against a background of deepening social inequality and when an 'underclass' of mainly young men with few prospects has appeared on the scene (Nellis 1999).

The trend towards greater centralization and authoritarianism has been given further impetus by the publication of *Joining forces to protect the public* (Home Office 1998). This important document proposed a 'unified national probation service' functioning as a Next Steps Agency with a Chief Executive and local chief officers in each of 42 new areas which are to be coterminous with police and Crown Prosecution Service boundaries. Nellis (1999) notes that *Joining forces* elevates public protection above all other purposes of the Probation Service. The narrow focus of the new Service is betrayed by Home Office suggestions for its new name, which have included the 'Public Safety and Offender Management Service'. All of which raises the

fear that the new Probation Service will become a 'machine for national coercion' (Nellis 1999).

The contrast with the findings of our research could not be starker. Establishing trust and building motivation were found to be fundamental prerequisites for labour market re-integration because many ex-offenders are mistrustful of mainstream agencies and lack motivation, often believing that they will never work again. This underlines the importance of making contact with ex-offenders in their own communities, requiring voluntary rather than mandatory participation in employment initiatives and using sympathetic, non-confrontational approaches. Ironically, these values are much closer to the traditional humanitarian values of the Probation Service, summarized in the phrase 'advise, assist and befriend', which have largely been jettisoned.

CONCLUDING REMARKS

This article has shown that ex-offenders are amongst the most disadvantaged groups in the labour market. A key finding of our research has been that despite the increased focus of policy makers on helping ex-offenders into the labour market the rise of a new public administration in Britain undermines this aim. This is manifest in several key conflicts. First, between the need to build trust with ex-offenders and the increasing authoritarianism of key agencies. Second, between the need to encourage local innovation and delivery and the increasingly centralized nature of public administration. Third, between the need to meet individual requirements of ex-offenders and the high caseloads and target culture of key agencies. Finally, between the need to encourage enterprise and commitment among practitioners and the development of a managerial culture which imprisons practitioners. All of which suggests that the real concern of policy makers is to show that they are doing something about the social context of criminal behaviour while at the same time drawing attention away from the increasingly centralized and authoritarian nature of our public agencies.

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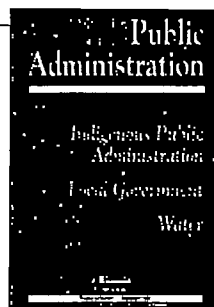
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THE FINANCIAL CRISIS OF THE LOCAL AUTHORITIES IN ISRAEL: A RESOURCE-BASED ANALYSIS

ABRAHAM CARMELI AND AARON COHEN

The financial crisis affecting many of the local authorities in Israel has a significant influence on their ability to supply municipal services of an appropriate amount and quality. So far, studies have been addressed to the financial crisis from a political approach by discussing aspects such as the problematic interrelation between central and local governments together with resource allocation. In this paper we investigate the financial crisis of many local authorities in Israel from a strategic point of view. However, this is by no means to argue that other approaches such as institutional and political ones are not important. Rather, the paper investigates whether the financial crisis affecting many Israeli local authorities is a result of their own strategies and practices.

Specifically, we have used the resource-based approach to explore the nature of their joint crises and the potential strategic responses that the local authorities should adopt in order to move into a more favourable state. In particular, we examine three resource-based systems: customer-oriented, organizational culture, and human resources, as the strategic roots of this crisis. We also examine the way they could produce a sustainable competitive advantage and could lead local authorities from the present position to a better one. The article recommends that the heads of local authorities should move to a resource-based strategy in order to perform both more efficiently and effectively.

INTRODUCTION

The financial crisis of many of the local authorities in Israel is an interesting subject both for discussion and research. Israel's local government system

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consists of municipalities (usually cities with at least 20 000 residents), local councils (small towns with fewer than 20 000 residents), and regional councils (a federation of several rural settlements). The financial state of the local authorities has influenced not only their ability to function and to supply services of an appropriate quality and quantity, but also their inability to pay their employees' salaries, an example being the Municipality of Lod, Local Council Hazor-Haglilit). Only a few local authorities performed satisfactorily financially, an example being the Local Council of Tamar, the Local Council of Kiryat Tivon, and the Municipality of Carmiel. However, the local government's ongoing financial crisis is not unique to Israel. Local government in several Western countries is in a poor financial position, with budgetary deficits that may lead to insolvency. The case of the City of Bridgeport, Connecticut, exemplifies this situation, filing for bankruptcy as a result of its insolvency derived from a budgetary deficit (Lewis 1994).

Researchers and practitioners have long been interested in exploring the sources of the variance, according to which some local authorities perform efficiently and effectively whereas other fail to do so. The financial position of any local authority is, dichotomously, a result of internal as well as external factors. The internal factors are those which depend principally on the strategies and practices of the local authority itself: the efforts it makes to enhance its financial resources by attracting business entrepreneurs (see, for example, Hasson and Hazan 1997) and improving collecting competencies. Although location is a critical factor linked to success in attracting businesses (see also Hasson and Hazan 1997), nevertheless local authorities such as the Local Council of Yokeneam, located in the north of Israel, have attained good results. External factors are those which depend more on the central government such as task allocation from central to local government without allocation of sufficient subsidies (Ben-Elia 1998; Hecht 1997). The educational service, for instance, is a state service, but local authorities are required to self-fund educational costs that the central government does not budget for. In addition, several local authorities, an example being Kiryat Tivon, invest significant amounts of effort to gain superiority in the educational field.

Researchers have devoted considerable effort to exploring the dimension of politics together with its influence on the function of the local authorities in Israel (see, for example, Dery and Auerbach 1997; Kalchheim 1997; Sharkanski 1997). Unfortunately, what might be termed the managerial approach has been left behind. The present article takes as its major goal the strategic exploration of the nature of the financial crisis of local authorities in the Israeli setting. Specifically, it draws on the theoretical insights of the resource-based view (RBV) of the firm. In doing so, the article proposes a different view of the sources of this crisis and suggests a path leading to recovery. We should emphasize that this study by no means ignores the importance of the political approach, but suggests looking at local government's financial state as a result of internal factors.

The paper is divided into three sections. In the first section, a theoretical framework is developed by discussing the cornerstone of the resource-based view and its implications for public sector organizations, specifically the local authorities. In the second section, the paper discusses the real state of finance and the two contradictory views of the origins of the crisis. Finally, the article examines three resource-based systems – customer-oriented, organizational culture and human resources – both as the strategic roots of this crisis as well as the way in which they could produce a sustainable competitive advantage and could lead local authorities to improve their financial position. The paper concludes with suggestions regarding further investigation into the variance of local authorities' performance.

A RESOURCE-BASED VIEW

Carmeli (2000) showed that there is a relationship between organizational resources and financial performance – successful and unsuccessful – of local authorities in Israel and that it is mediated by competitive advantage. He also showed that the organizational resources and competitive advantage account for the variance in financial performance after the demographic variables (age, size, legal status and sector) and organizational environment (uncertainty) were included. In the light of Carmeli's (2000) findings, we propose looking at the financial crisis as a phenomenon that can be understood using the resource-based view. This part begins with a brief analysis of the theoretical foundations of the resource-based view. It proposes an analysis framework for three strategic resource-based systems that may help to explain the financial crisis and the overall function of local authorities not only in Israel but elsewhere.

Origins, definition and concept

The resource-based view (RBV) of an organization presumes that success is a function of the resources and capabilities that the organization has acquired or developed. The RBV assumes that gaining a sustainable competitive advantage (SCA) is a function of the resources and capabilities that each organization brings to the competition in a given environment (Barney 1995) and that these are the main source of an organization's success (Grant 1991). This view is contrary to the traditional strategic view which claims that achieving SCA depends on the analysis and evaluation both of the traits and opportunities of the external environment of the organization as well as on its strategy (Bourgeois 1980a, 1980b; Porter 1980). This approach also differs from the purely economic view which claims to be dominant in the market in explaining any variance in an organization's performance (Schmalensee 1985).

The RBV has been expressed thus by Penrose (1959), who claims in her popular book, *The Theory of the Growth of the Firm*, that to evaluate an organization's success in terms of turnover growth, we should focus on the internal factors since they are the real source of a competitive advantage.

Yet, only with the appearance of the papers of Wernerfelt (1984) and Barney (1986), has the RBV become a more widely researched field. The RBV has affected the field of economics, but mostly through a strategic view of organization research. The latter led to two trends. One emphasized the affects of the external environment (the market) and its influence on the strategic decisions of the players (Bourgeois 1980a, 1980b; Porter 1980). This trend had little affect on the development of the RBV when compared to the second trend, which did not ignore the external environment, but also considered the internal aspects (Andrews 1971; Ansoff 1965; Hit and Ireland 1985; Hofer and Schendel 1978; Selznick 1957).

These trends are demonstrated by the SWOT (organizational strengths and weaknesses; environmental opportunities and threats) analysis. The SWOT analysis, as depicted in Figure 1, emerged in the 1960s (see Ghemawat *et al.* 2000); it became a popular tool since it enables the definition of the hub of the organization's strategy (what are its competitive goals and how is going to compete to attain them). The hub of the strategy, namely the vision and competitive advantage, is that it is essential to carefully match the organization's strengths and weaknesses to the opportunities and threats presented by its environment (Collis and Montgomery 1998, p. 48). All in all, the strategic choice depends on these four elements. Many organizations continue to implement the SWOT analysis for their strategic planning. The RBV basically concentrates on the internal side of the SWOT model, but also makes a contribution through underlining the fit between the distinctive resources of an organization and the competitive requirements of a task environment (Collis and Montgomery 1998). The RBV is useable as a platform for the formation of competitive strategy. (Barney 1991; Porter 1991; Peteraf 1993; Reed and Defillippi 1990) and as a source of creation for SCA (Barney 1995; Conner 1991; Grant 1991; Peteraf 1993).

The literature suggests diversified terms for RBV, such as resources, capabilities, competencies, skills and assets as basic concepts of the view. Yet a

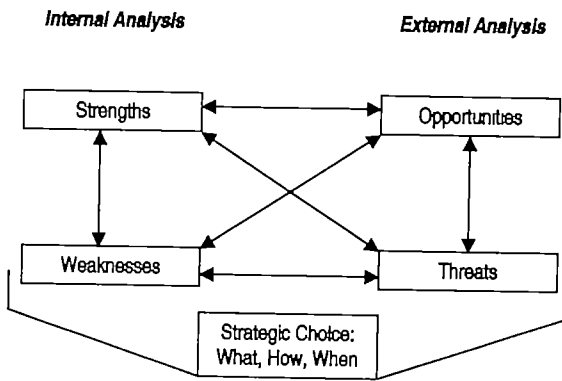


FIGURE 1. *The SWOT model*

reading also suggests that it questions which term we should use. This paper uses the term 'resources'. Amit and Schoemaker (1993, p. 35) defined resources as 'a stock of available factors that are owned or controlled by the firm (organization)'. Wernerfelt (1984, p. 172) describes resources as 'anything which could be thought of as a strength or weakness of a given firm (organization)'. Using the term 'resource', we mean a strategic resource, one that creates SCA. The SCA will stand only if a firm implements a value-creating strategy that is not simultaneously being implemented by any current or potential competitors, and which other firms cannot duplicate to their advantage (Barney 1991, p. 102).

The RBV claims not to look at firms in terms of their products' market activities but in terms of their resources (Wernerfelt 1984). The assumption behind this concept is that the organization functions in a dynamic and competitive environment. Here, the real source of competitive advantage is the ability to meet environmental changes consistently. In this way, one can gain only by identification, development and preservation of strategic capabilities (Bartmess and Cerny 1993).

Gaining and preserving SCA and superior performance are functions of the resources and capabilities that each organization brings to the competition (Aaker 1989; Barney 1995; Grant 1991; Conner 1991). The theoretical claims established by Hansen and Wernerfelt (1989) hold that external market factors are as useful in explaining variance in performance as internal factors, which explain nearly twice as much about variance in performance. Rumelt (1991) shows that the unique skills of a business unit can explain more than six times as much about variance in performance when compared to the external environment factors. This last assertion differs from Schmalensee's (1985) earlier evidence.

From the late 1980s, research efforts have addressed the relationship between resources and capabilities, SCA and above-normal performance. These efforts draw on the theoretical claim that heterogeneity of the resources of organizations leads to differences in their competitive advantage and to variance in their performance. In this context, we can understand the theoretical arguments of Prahalad and Hamel (1990), which hold that the best way to win in a competitive world is to build competencies over the long term. While this may be so, it is not certain that competencies create a competitive advantage (Reed and DeFillippi 1990). This raises the issue of which factors are necessary for creating and preserving SCA.

Every organization has diversified resources. The issue here is to identify the strategic and non-strategic resources. Strategic resources, such as know-how and human capital, contribute significantly to the creation of SCA and success; in contrast, non-strategic resources such as office furniture, make an insignificant contribution. There are several ways to determine whether a resource creates and preserves SCA. First (and we emphasize the key findings), the resource should be *costly to imitate* (Barney 1986, 1991, 1997; Collis and Montgomery 1995; Dierikx and Cool 1989; Reed and DeFillippi

1990). Second, the resource should not be *easily tradable* (Dierikx and Cool 1989; Peteraf 1993). Third, there should be no available *substitute* for the resource (Barney 1991, 1997; Collis and Montgomery 1995; Dierikx and Cool 1989). Fourth, the resource should be *valuable* (Barney 1986, 1991, 1997). Fifth, the resource should be *rare* (Barney 1986, 1991, 1997).

Linking the resource-based view to public sector organizations

Our study further suggests that the resource-based view may also be adopted for the understanding of the variance in performance of public sector organizations. Government and business have long been subject to comparison (Beckett 2000) because of the premise that to better is performance the public sector should adopt the ways of the business sector. This call for the adoption of strategies and techniques from the business field in order to improve their performance is derived from the growing demand of citizens as well as politicians (see, for example, Box 1999). The New Public Management (NPM) movement is an expression of the notion that the public sector should follow the business sector in order to improve its problem-solving competencies (Kettl 1997; Lynn Jr. 1996).

One of the more important insights of the resource-based view is that sustainable competitive advantage is a function of an organization's core resources. Public sector organizations are changing their strategies and methods of operation to be 'better, faster, (and) stronger' (Durst and Newell 1999). In this study we propose that public sector organizations should consider developing core resources in order to gain sustainable competitive advantage. This concept is demonstrated through the three resource-based systems aimed at revealing the extent of financial crisis affecting many local authorities in Israel.

THE FINANCIAL PERFORMANCE OF THE LOCAL AUTHORITIES IN ISRAEL

The financial performance of the public sector, including local authorities, has now become a subject for research and general discussion in Israel (see Ben-Elia 1999; Dery and Auerbach 1997; Hecht 1997). It has also become a research and public topic in other countries: Britain and the USA, for instance. This interest is due to the acknowledgement that the financial problems of public sector organizations such as local authorities have a serious effect on the way they perform. The report by the panel on Civic Trust and Citizen-Government Relations For the 21st Century of The National Academy of Public Administration (NAPA) of the United States (1999, p. 4) states:

In America today, the relationship between citizens and government is in disarray. Many Americans do not believe that their government delivers reliable or effective public programs nor do they believe that they get much value in return for their tax dollars.

During the 1980s, Britain experienced a major reform in its local government finance due to a serious criticism of the growing accumulation of deficit. The tax structure of domestic property tax was replaced by a poll tax. This significant reform did not succeed as expected (Branett *et al.* 1992), but it illustrated the point that financial problems are not restricted to one country. We shall now discuss the state of finance in Israel and its origins as perceived by local government and central government.

The state of finance of the local authorities in Israel

To understand the critical problem faced by Israeli local authorities, we shall briefly describe the distribution of the local government structure and the financial results for 1998. Israel has 265 local authorities in all, two are industrial local councils, 148 are local councils, 62 are municipalities and 53 are regional councils.

As data were available only for 264 local authorities, the discussion will be limited to this data set. We find an annual deficit of 1,611,301 thousand NIS in the regular budget. In addition, the current assets were 1,622,823 thousand NIS as compared to the current obligation of 7,220,112 thousand NIS. This represents a very bad liquidity scenario, even an insolvency situation. Looking within the distribution, we find that municipalities suffer from an annual deficit of 1,173,587 thousand NIS; the local councils suffer from an annual deficit of 314,459 thousand NIS; and the regional councils from an annual deficit of 123,255 thousand NIS. Comparing the current assets to the current obligations, municipalities have 995,507 to 5,058,488 thousand NIS, local councils 319,403 to 1,421,168 thousand NIS, and regional councils 307,913 to 740,456 thousand NIS respectively (Ministry of the Interior 1999).

This brief survey tells us that under Groves' (1980) measures, local government in Israel is in a state of insolvency. This problematic situation has affected many of the local authorities. For example, in 2000, the local council of Kiryat-Malachi could not pay its employees' salaries for many months. Further evidence of this can be seen in the strike of the Arab-Druse local authorities, again something which lasted for months without an effective solution. The question that arises is: what are the origins of this financial crisis? We shall provide two possible explanations: local government and central government. To start with, we shall briefly describe the structure of local government finance in Israel.

The structure of the local government finance in Israel

Israel's local government has long claimed autonomy of the public finance system. The components of the public finance of local government depend on central government. It is central government that confirms local government budgets, loans, extent of property tax and makes decisions about their tasks and the subsidies to be granted them. Finally, it is central government that requires the presentation of financial reports and subjects them to aud-

iting (see, for example, Hecht 1997). However, as a result of the political decentralization begun in the late 1970s (Razin 1998), local government has been granted autonomy to set their own goals and programmes, as well as to initiate economic development and public infrastructure (Hecht 1997).

The finance for Israel's local government activities is derived from two major sources: the regular and non-regular budgets. The regular budget is self-financed by revenues collected directly from residents and businesses such as property tax and development levies, transferred revenues (portions of taxes that are basically owned by the local government but collected by the central government and transferred to local authorities), general grants (transferred by the Ministry of the Interior in order to ensure sufficient resources for local authorities to deliver acceptable levels of municipal service), and specific grant (transferred by the central government to finance state-related services, particularly education and welfare (see Hecht 1997; Razin 1998). The regular budget is expected to finance current expenses such as salaries, operational activities and loan payments. The non-regular budget is financed by non-regular incomes, which typically are not drawn from the same source such as development fees, improvement fees, donations and loans (Hecht 1997). The non-regular budget is expected to finance high-cost infrastructure such as water, transport, roads, lighting and drainage.

Perspectives on local government's state of finance

The central government perspective

Two main elements are presented: the management of local authorities and their size. To manage a local authority is a difficult assignment, not only because of its many functions, but also due to the scope of its assets and budgets (Audit Commission 1988). Scholars describe management competencies as a source of creating rent (Castanias and Helfat 1991), because the quality of the managerial staff is a critical factor for success (Meyer and Zucker 1989).

In the Israeli case, central government argues that local authorities' weak financial status is a result of improper and wasteful management. An example of this is the entrance of local authorities into new areas of activity without careful and coordinated planning with central government (Ben-Elia 1996; Kopelman 1990; Kalchheim 1997). Supporting the claim of wastefulness is a comment made by the popular former mayor of Tel Aviv-Jaffa, Solomon Lahat, who said, 'I regret I did not spent more (money). It hurt me knowing I could not find more money to complete the projects that had already been started' (Dery and Auerbach 1997, p. 91). This behaviour is a sort of 'strategy' adopted by leaders of the local authorities, who in point of fact do not care about huge budgetary deficits as long as residents are satisfied, and knowing that central government will be forced to come to their assistance.

Ben-Elia (1997) pointed out that many local authority managers lack even

basic competence. In Israel, there are no minimum entrance requirements for the position of local authority head. And since many of the elected heads also serve as chief executive officers (CEO), the problem is even more acute. The management issue is not unique to Israel. In Britain, for instance, Stewart (1986) claims that the 'traditional management' cannot deal with the new changes and challenges facing the local authorities. He calls for 'new management', emphasizing the need for flexibility and the ability to adapt to changing environmental tendencies.

The fact that there is no parallel to this problem in the private sector makes the issue even more pronounced and calls for discussion of the management issue of local authorities based on the political process and its legitimacy (Leach *et al.* 1994). Golembiewski and Gabris (1994, 1995) argue that successful management of a city can itself lead to failure, meaning that success may be the source of failure. The reason is due to the belief that elements that once fitted certain circumstances have changed and no longer fit well. In order to avoid this, a mayor should concentrate on emphasizing the aspect of 'effectiveness' over the issue of 'being efficient', enhancing teamwork, striking the right balance in council-manager relations and seeking lasting improvement.

The second aspect is the size of the local authorities. Research indicates the effects of organizational size on performance. As the organization increases in size, its chance for survival grows (Drummond and Chell 1994; Hager *et al.* 1996). The factor of the size of local authorities and its implications on the financial performance of local authorities is not unique to Israel. In fact, Israel shares the problem of local authorities' size with many European countries such as Sweden, France and others (see, for example, Martins 1995), according to which small local authorities (in terms of residents) are in an inferior financial position as a result of their limited fiscal sources. Up to December 1996 in Israel, approximately 56 per cent of 247 local authorities, accordingly to data then available, had fewer than 10 000 residents (The State Comptroller 1998).

The question arises as to what result the size of a local authority has on its performance. Razin (1998, 1999) showed that in Israel, small authorities suffer from budgetary weakness and are a burden, as compared to larger ones. Further evidence of this came from the Committee for Unification of Local Authorities, which stated that regarding overall functioning, '(we) can conclude... that in the small local authorities inefficacy derives from the absence of the economics of scale' (Ministry of Interior 1998, p. 58). Razin (1998a, p. 54) argued that the major result of Israel's local government fragmentation is the lack for sufficient mechanisms for inter-municipal co-operation, the existence of which could compensate for the negative effects of fragmentation.

The effects of size have also been discussed in other countries. In Britain, for instance, the Redcliffe-Maude Committee for exploring the function of local government determined that only local authorities of over 250 000 resi-

dents could meet their goals. Martins (1995) pointed out that to supply four categorized services efficiently, the recommended size for local authorities in The Netherlands is over 11 600 residents. Nevertheless, the differences between countries, as well as disagreement regarding recommended size of local authorities, leave us lacking a clear position. This indecision is reinforced by Martins (1995), who says that there is no such thing as an optimal size for local authorities, and by Leach, Stewart and Walsh (1994) who also argue that large size leads to a bureaucratic organization that cannot meet its duties.

Up to this point, we have presented two major claims presented by Israel's central government regarding the problematic economic state of local authorities. The first claim referred to mismanagement by the heads of many local authorities, namely 'non-professional' and 'wasteful'. The second pertained to a more structural problem, the size of the local authorities, according to which small local authorities suffer from budgetary weakness when compared to large ones. We will now turn to the local government's perspective.

The local government perspective

The following two points will be discussed: the local government structure and the resource allocation system. The first encompasses two main features: the general organizational structure and the internal organizational structure. Regarding the general organizational structure, the activities of local government in Israel are very much related to those of central government. This relationship is not entirely established; in addition, it suffers from difficult problems such as task division and faulty coordination between ministries, which in turn lead to poor treatment of local government issues (Reuveni 1987). It appears that the entrance of local authorities into new fields of activity without careful and coordinated planning with central government is not merely a managerial issue, but a comprehensive one, and widespread throughout the system.

Kalchheim (1997) has argued that although Israeli local authorities are in a close relationship with central government, they still have a significant amount of autonomy. Nevertheless, the lack of a specifically stated relationship continues to make local authorities' function difficult. With regard to the internal organizational structure, there remains a problem regarding the absence of regulated mechanisms for cooperation between the local authorities themselves. This makes it difficult for them to liaise about needs at a local level such as education, immigration and ecological issues (Ministry of Interior 1998; Razin 1999).

Regarding the second point, the resource allocation system, the major claim holds that many local authorities are in a financial crisis due to their task burden and lack of proper resource allocation (Hecht 1997). 'On the state level for more than ten years we have witnessed a process of decentralization, which encourages an increasing volume of municipal activities

without providing capabilities and resources in parallel' (Ben-Elia 1998, p. 8). This claim is not unique to Israel as we shall see, but no uniform evidence has yet appeared. Newman, Gradus, Levinson and Kalati (1993) tested the resource allocation issue in towns in the Negev area in the south of Israel. They sought to explore the suitability of financial resources when matched to the additional municipal activities due to the mass immigration from the former Soviet Union between 1987 and 1992. They showed that with the exception of one town, all towns benefited significantly from budgetary increases. Most towns even increased their budget by more than double in real values in order to supply an adequate and quality range of municipal services to the increased population. The expectation that the expenses of these towns would be equal to or slightly different as a result of the increased population has not been fulfilled. It has, however, represented almost the same increase from the two sides of the budgetary coin. Contrary to this claim, Ben-Elia (1999) showed that the main cause for the financial crisis of the Israeli local authorities – a lost 13 billion NIS – is the result of central government's avoidance of budgeting municipal activities. By definition these activities should be funded by central government but the fund was not, perhaps deliberately, transferred. Only half the amount was covered by increased municipal taxes.

In this context, it appears that the increasing volume of local government activities on behalf of central government is not unique to Israel. This phenomenon is expressed by the amount of local government expenditure within the total public expenditure (Goldsmith and Newton 1988; Sharpe 1988). England experienced a similar process during the second half of the 1960s and the first years of the 1970s when there was a significant increase in the expenditure of local government, who claimed that their volume of services had grown. In practice, the significant increase of their expenditure was due to faulty budgeting and not necessarily related to their volume of activities. When central government planned to stop this in 1975, local government in Britain continued to call for an increase in local government funding (Leach *et al.*, 1994). This in effect is what local government is doing in Israel today.

We have presented two major claims by Israel's local government regarding their problematic economic state. The first referred to the problematic relationship between local government and central government, according to which the way of managing municipal issues is inefficient. It derives from dividing responsibilities among government departments, as well as among ministries and local government. The second referred to the task burden local authorities must bear on one hand, and lack of proper fiscal resource allocation on the other.

We have presented the contradicting views of local and central governments. As we have seen, neither view adequately explains the financial crisis phenomenon. The major goal of this study, then, is to suggest a different view of the financial crisis of local authorities in Israel derived from

management science rather than political science. Earlier, we presented the origins and the theoretical insight of the resource-based view. We shall now present three core resource-based systems that can offer an explanation for the financial crisis phenomenon.

CORE RESOURCE-BASED SYSTEMS OF LOCAL AUTHORITIES

This section seeks to establish a model of strategic resources of local authorities. Strategic resources, also known as 'core competencies' (Prahalad and Hamel 1990), or 'core capabilities' (Leonard-Barton 1992) are those that create SCA. Until now, major efforts have been made to establish the profile of strategic resources of successful business organizations. The issue here is that there are still no generic core resources that have been identified both in the business and public sectors. This may be explained by the fact that business and public sectors fill multiple niches, making it difficult to identify inter-population generic resources. Examining the niche of local government, we are faced with the challenging task of exploring a new and different model of core resources for local authorities.

Drawing from the System Approach, Figure 2 represents a bundle of three *resource-based systems* as the source of SCA and success. Each system stands singly, but all are interrelated. The model includes the customer-oriented system, the human resource system and the organizational culture system. We shall discuss each system in detail.

The customer-oriented system

The customer-oriented view is not rare, especially among service organizations. Norman (1990) pointed out that having a customer-oriented system is a part of an overall culture and a major way to success. The explanation for this may be found in Stalk, Evans and Shulman (1992), according to whom many organizations claim to be 'close to the customer', but only a few have a wholly customer-oriented system. Becoming a customer-

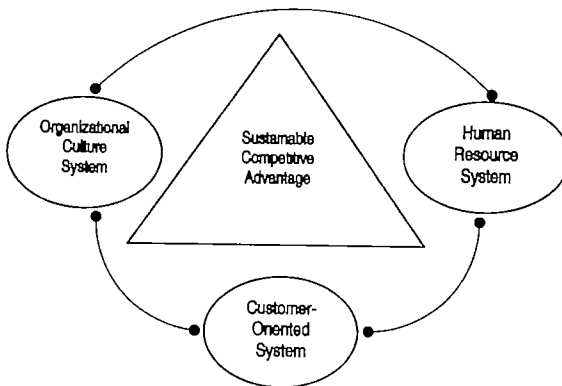


FIGURE 2. *Core resource-based systems*

oriented organization is a complicated task, since it is totally different to concentrate activities towards the customer, and hence demands a significant measure of change in the organization's culture. An efficient local authority should have a customer-oriented system and be able to supply services of high standards both in quality and quantity. It should also be able to continue improving the system to meet the changing needs and preferences of its residents.

Attaining that kind of system requires that local authorities shift their strategy from a product-oriented to a consumer-oriented strategy. For example, rather than dealing with consumers through different departments and sub-departments, local authorities can build customer-oriented departments for handling ecological problems. Many young people need flexible reception hours in the afternoon when they finish work; In addition, issues such as education and employment are very important to them. Older people may require greater personal attention, and issues of transport and welfare services are more important to them.

However, the strategy and its framework are not sufficient to create a competitive advantage. Local authorities must not only *supply* services but, possibly more important, *manage* services. The difference between these two concepts is profound. Contrary to the supplying service organizations, the managing service organizations have, in concept and practice, a fundamental service consciousness. This means that they grasp the service not as just one part of their overall task burden, but as the overall task itself. For instance, local authorities that adapt the concept of managing services, try to employ it as a dominant behavioural philosophy. This would be implemented by all staff from top managers to junior employees, as suggested in the total quality management (TQM) view that includes four dimensions (see Deming 1986).

The first dimension is *efficacy* – what resources are needed to complete a task? The second is *effectiveness* – what is the rate of achieving expected goals from the point of view of the customer? The third dimension is, *quality* – how is the service presented? These three dimensions may be illustrated as follows: the unit of the Ombudsman in a local authority replies to a resident's application within 48 hours of its arrival. In its reply, the Ombudsman acknowledges receipt and asks the resident to wait for the response of the relevant department. A service that was required has delivered, but the performers treated the resident neither generously nor tolerantly. Hence, we have efficacy and effectiveness, but not quality. The Municipality of Haifa has been criticized for its Ombudsman unit's response, made shortly after the application from the resident arrived, but not followed up with final results. In other words, once the Ombudsman unit receives the application, it responds and delivers only an acknowledgement of receipt and refers to the particular department the resident should expect to receive an answer from, and by that the role of the Ombudsman unit comes to an end. In many cases, it was found that only

the formal letter from the Ombudsman reached the residents; the request itself, received no treatment.

The fourth dimension is a *social-psychology process* – a service that can be perceived from a social and psychological viewpoint. The question here is how does the service system handle the social and psychological aspects, perhaps, the essence of the service. Organizations can provide the best service, but neglecting clients' psychological needs can lead to discontent. The same applies to the social needs of clients – who would like to regard the service system as a social one. These two aspects are exemplified in the customer-oriented strategy of the Municipality of Raanana, which made the following announcement:

The Raanana Municipality believes that efficient, speedy and courteous service to its residents is the cornerstone of its activity as a modern municipality in the year 2000. Pursuant to this approach, the Municipality has opened a diverse communication system (emphasizing transparency towards residents), which is at the public's disposal, and which is designed to assist the resident with his or her contacts with the municipal system, to make its services more efficient and to improve their level of quality (<http://www.info.gov.il/min-PNIM.asp>).

A local authority that suggests good quality municipal services need not neglect the social and psychological needs of its residents. The Municipality of Raanana adopts this approach by opening a diverse communication system with its residents. The transparency of Raanana's activities creates a unique governmental-resident relationship. By so doing, it responds to the residents' social and psychological needs.

The human resource system

The human resource system acknowledges the importance of human capital in the organization. Its importance is well known in organization theory, and is rooted in human relations theory. The latter has emphasized exploration of the human factor and its effect on organizational efficacy and effectiveness. The experiments of Hawthorne (Roethlisberger and Dickenson 1939; Mayo 1946) were the first to validate human resources as a source of organizational efficacy and effectiveness. The human resource system is also supported by the human capital theory, which presumes that investment in human resources via education and training will enhance an employees' capabilities and skills. As a result, from a narrow perspective, the organization can boost effectiveness; and from a broad perspective, the economics of the organization can benefit by growth (Asefa and Huang 1994; Wykstra 1971).

Many government organizations in Israel have a problem recruiting above-average, let alone excellent, human capital. The reasons are many and range from poor public image, through unchallenging work environment, to the enticements of non-governmental organizations for above-

average human capital. As part of the governmental and public framework, local authorities are not alone in having this problem. Yet here the problem is more acute than in other governmental and public bodies. Many elected local authorities assign their loyal staff not only to senior functions, but to low-level positions. This phenomenon could be called 'social nepotism', as each elected local authority fills positions with its political friends. This is done in order to build a wide base of support, and to execute certain political goals. While the elected authorities may not want to do this in many cases, they are obligated to their political supporters. This phenomenon has not been controlled effectively by the central government comptroller. It occurs mostly in the case of small local authorities, where authorities are elected by a small number of supporters. The phenomenon is felt acutely in some Arab-Druse local authorities as the result of an embedded tribal culture. It is important to explore the source of poorly skilled human resources since this is one of the sources of the financial crisis of the Israeli local authorities. Lawler III (1994, p. 12) claims that the skills of employees are a source of competitive advantage and can lead the organization to better performance. Hence, if local authorities do not recruit the best human resources, or at least above-average ones, they will lack a competitive advantage and will produce unacceptable standards of performance.

In its latest reports, the Israel State Comptroller exemplified the problematic human resource system in Israeli local government and its effect on its state of finance. The State Comptroller (2001) reported on the recruiting procedure for employees in the Municipality of Ashdod during 1998 and 1999. During this period, the Municipality of Ashdod recruited 134 employees, of which only 45 positions required public tender. Of those 45 positions, 42 were filled without public tender. In its response, the municipality claimed that a public tender is a waste of financial resources. The State Comptroller refuted the municipality's argument, stating that the duty of a public tender is aimed at ensuring equal employment opportunities as well as *appointing the best person to the job* (p. 104). In its report on the Local Council of Julis, the State Comptroller revealed that during 1997 and 1999, the salary and accompanying expenses were raised by approximately 40 per cent and were 41.4 per cent of the total expense of its regular budget. This rise was a result of exceeding the maximal number of hired employees allowed. Furthermore, in January 1998, the local council of Julis made a commitment to the Ministry of Interior to reduce its salary expenses by 445,000 NIS. The State Comptroller's report revealed that during this period the local council recruited new 26 employees. Needless to say the competence of all these employees was not tested. These two examples are not exceptional; rather it is the norm in many Israeli local authorities.

The organizational culture system

Organizational culture is a wide and sophisticated concept. For many, it appears to be a clear concept, but in practice it is not due to the multi-

dimensional nature of the concept of organizational culture. These dimensions include the organization's identity, values, norms and rules, and their role is to direct the organization's behaviour. Before exploring what we mean by the concept of culture, we must address the fact that organizational culture has been viewed as a core resource. Barney (1986), Fiol (1991) and others explain organizational culture as a strategic resource and as a source of SCA. Porter (1980, p. 42) claims that corporations can fail due to an unclear culture. The variance of performance is a function of the organizational culture (Barney 1986; Denison 1990; Marcoulides and Heck 1993; Peters and Waterman 1982).

Denison (1990, p. 2) describes culture as a system of behavioural variables, including values, beliefs and principles serving as the base of the organization in the context of its management and behaviour. Here we use the three dimensions (levels) of culture, suggested by Schein (1990): (a) observable artifacts; (b) values; and (c) basic underlying assumptions. We shall analyse the organizational culture of the local authorities in Israel through these dimensions.

The first dimension – *observable artifacts* – of the organizational culture refers to the observations and feelings of the customer regarding an organization's artifacts. It is a perceptual-based dimension, which explores the surface behaviour. Local authorities in Israel do not pay the necessary attention to this dimension. Not one of them has a dress code, many exhibit lack of courtesy in addressing people, have physical surroundings that are inconvenient for customers, not to mention the poor record they have already accumulated.

The second dimension – *values* – seems to be the most important in understanding the financial crisis of the local authorities. It is not incorrect to claim that insolvent local authorities have not internalized the duty of accountability. In Israel, no performance measures have been established, apart from a financial one (Razin 1998, 1999) as well as the six measures (i.e. financial, level of municipal development, employment, resident emigration balance, standard of living and transportation safety) developed by Carmeli (2000); and not one of the local authorities has reported systematically on its performance. A lack of a systematic reporting procedure of performance yields a problem of non-transparency in the local government's proceedings. Furthermore, by creating a huge deficit, they are mortgaging the future welfare of their residents, and no mayor has the moral right to do this without his or her constituency's consent.

According to the Ministry of Interior (1999), of the 264 local authorities on which we have available data, only 41 (15.5 per cent) achieved a positive or balance accumulated surplus in their regular budget, while most of them achieved small surpluses in relation to their large deficits. One can argue that 84.5 per cent of the local authorities that are deficient may have a strategy of accumulating deficits in order to obtain more grants, while the weakest local authorities are frequently balanced, simply because they can-

not take on loans. However, looking into the financial reports of the Israeli local authorities produces different results. Many of the local authorities that are in financial equilibrium are not small. For instance, Ashkelon, Ness Ziona, Carmiel, and Nesher have balanced budgets, and they have the ability to take on loans. Furthermore, by examining the financial reports carefully, it appears that other related financial ratios such as self-funding per resident, current assets to current obligations, are poor as well. Why do local authorities produce deficits? We suggest an additional explanation, according to which the culture of many of the local authorities are dominated by improper values. The financial deficit of the majority of local authorities in Israel, as well as in many US cities, is not merely an issue for accountants but an expression of bad behavioural norms (Lewis 1994). As an example of this, we can again cite the case of the Local Council of Julis and its expenditures. The Israel State Comptroller (2001) criticized the Local Council of Julis for an increase of approximately 40 per cent in salaries and related payments between 1997 and 1999, and the expenditure was, on average, 41.4 per cent of the total expenditure.

The third dimension – *basic underlying assumptions* – suggests another source of organizational culture. In many local authorities, we can find unconscious assumptions, all of which affect the organization's perceptions, thought processes, feelings and behaviour. In many cases, the problem is not a conflict between contradictory assumptions, but improper and unsuitable ways of dealing with present and future challenges. According to Gold (1982, p. 569), successful organizations contain conscious assumptions. Their objectives are well-established, the organization is perceived as 'special', management is people-oriented, open and informal, and successful performance is recognized and rewarded.

Many of the local authorities have not shed their previous bureaucratic behaviour. In contrast to Gold's (1982) properties, no local authority rewards its employees for achievement because of the rigid arrangements of labour relations. This is a national problem, but local government could do more to change this situation. In many cases, objectives are not well established in that most of the local authorities deal with 'fire-fighting', not with establishing strategic goals (Ben-Elia 1996). Furthermore, management is not people-oriented; rather, it is politically oriented. Local authorities are, by definition, not open and informal organizations. The local authority is not perceived to be a 'special' organization and this affects its behaviour and proceedings.

CONCLUSION

The state of finance is an expression of the general function of the local authority. Any organization – commercial or public – cannot function well without financial resources. The role of the core resources is vital in achieving SCA and above-normal financial and non-financial performance. Although local government has laid blame for this situation on central

government, and it cannot be denied that some of their claims are valid, most of the responsibility for the financial crisis lies clearly in the core resources. Porter (1980, p. 3) claims that the external environment usually affects all players, hence the key for success should be found in the variance capabilities of each player. To paraphrase, we claim that the political, social and economic environment all represent, to a greater or lesser extent, the same opportunities and threats to all local authorities. Thus, the key for success lies in the core resources.

This paper proposes a different focus of inquiry into the financial crisis of the local authorities in Israel and the prospects of overcoming this problem. While we do not ignore the special traits of the local authority as a political entity, the focus here is on strategic management. The first step is to perceive the local authority as an independent organizational unit, one which aims to fulfil well-defined purposes. The second step is to develop and acquire a type of resource-based management related to a service organization. The third step is to build and develop the three core resources. This represents a totally different perspective on the proceedings of local government in Israel, as well as outside Israel.

Because of the costs involved, there would be some difficulty in building such resource-based systems. Nevertheless, the RBV suggests that in order to achieve an above-normal performance, the organization should develop core competencies (Prahalad and Hamel 1990), capabilities (Stalk, Evans and Shulman 1992) or resources (Hall 1993). The call for strategic management in the public sector (see, for example, Greer and Hoggett 1999) is one of the important moves towards a strategic approach as well as strategic management practices. If local authorities could be led to understand the potential of the strategic view, their management strategy would extend beyond 'extinguishing fires', and would look far ahead into the future.

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IMPROVING PUBLIC SERVICE DELIVERY: THE CROSSROADS BETWEEN NPM AND TRADITIONAL BUREAUCRACY

JOAQUIM FILIPE FERRAZ ESTEVES DE ARAÚJO

This article analyses a New Public Management (NPM) style of reform recently introduced in Portuguese public administration. The reform introduces new organizations to a method of delivering public services called 'Citizen Shops' (CS) (*Lojas dos Cidadãos*). Several public services are concentrated in a single building whose management follows the practices of the private sector concerning service delivery and opening times, rather like a 'shopping centre'. 'Citizen Shops' is a kind of agencification and is an attempt to avoid the constraints of civil service red tape and bureaucratic resistance to change. The author argues that the extent to which new ideas were imported from NPM was limited and constrained by the institutional framework and the culture prevailing in Portuguese bureaucracy. Citizen Shops reproduced the hierarchical and centralized nature of service delivery and followed the traditional patterns of control. The prevailing structure is an important constraint on NPM development.

INTRODUCTION

One of the main targets of Portuguese administrative reform since 1985 has been to provide better services for users and a task force reporting directly to the Prime Minister has been responsible for implementing and supporting administrative reform. A specific agenda reform issue, service delivery, has received attention for more than a decade. Several initiatives have been implemented in recent years to improve relationships between citizens and administration as well as the quality of service delivery. Reform has been influenced by the experience of other countries. Several initiatives were borrowed from outside Portugal and the country was not immune to the New Public Management (NPM) ideas.

Recently there has been an attempt to revitalize service delivery and to employ innovative organizations to deliver services to citizens. The reform has introduced a new public organization, the *Instituto de Gestão das Lojas do Cidadão* (the Management Institute of Citizen Shops – MICS). This agency has, under the tutelage of the Ministry of State Reform and Public Administration, been put in charge of creating and managing organizations responsible for providing high quality public services to citizens: the *Lojas do Cidadão* (Citizen Shops – CS). Citizen Shops are an innovative approach borrowed from the Brazilian experience. There are currently three of them

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in Portugal, one operating in Lisbon, another in Porto (the second biggest city) and the third in Aveiro.

The purpose of this paper is to explore the New Public Management style of reform and to look at similarities with NPM reform in Portugal. The innovations and challenges which 'Citizen Shops' bring to traditional administrative structures will be analysed.

The paper is structured as follows. The different components of NPM are compared with those of the traditional Portuguese administration. This framework will guide our analysis of CS reform, allowing us to make a comparison with NPM reform, providing a picture of the extent of the change. The paper argues that 'Citizen Shops' represent a kind of agencification as well as an attempt to avoid the constraints of the civil service system – red tape and bureaucratic resistance to change. It maintains that the traditional reform approach is replaced by a new approach based on the ideas of NPM, but that it is limited in the extent of its reform. Three issues arise from the discussion: (1) the power of a traditional bureaucracy and its ability to resist reform; (2) the emergence of a new public sector structure which performs parallel activities alongside the traditional structures; and (3) the movement towards a kind of agencification. The paper concludes that although this is a political attempt to revitalize a stalled reform and to introduce a greater degree of entrepreneurship through new management methods, the 'new structure' is limited in its ability to innovate or challenge the traditional features of the Portuguese administrative system. The data were collected from official documents and semi-structured interviews with officials at the Citizen Shop in Porto and with the President of the Management Institute of Citizen Shops, the new public organization.

THE CONCEPT OF THE CITIZEN SHOP

Several public services, and some private ones such as banking or utilities, had already grouped extensions of their services together in a single building. These are called Assistance Points and their management follows private sector practices concerning service delivery and opening times, again rather like a 'shopping centre'. The CS on the other hand are considered to be the 'state of the art' front-office organizations and resemble 'islands' that are 'competing' with traditional bureaucratic public services.

Citizen Shops follow a client-based approach, borrowing some ideas from NPM and the development of a customer- or user-based attitude in the public sector in order to achieve a more responsive bureaucracy, something that has become an emerging issue in New Public Management. Indeed, the provision of public goods and services has, with few exceptions, become a critical issue in current reform efforts in many countries (Pinto 1998). Service quality and better customer care are key issues (see Ranson and Stewart 1994; Gaster 1995). Holmes and Shand (1995) point out that establishing a service delivery orientation has become a widespread reform tar-

get and an emphasis on customer or user support in the public sector is now part of an overall focus on performance as well as on achieving a more responsive public sector. Hence it is worthwhile to analyse the extent to which Citizen Shops are an exponent of NPM or of the more traditional Portuguese bureaucracy.

PROVIDING A CONTEXT

The reform in developed countries known as New Public Management has become a global-wide trend with many public sector organizations. These organizations have experienced a paradigm shift which has had impact upon their structure, operation and mind-set (Hood 1995). Various perspectives on the approach to public management have been presented in the past few decades, although, according to Hughes (1994), they have some points in common, including: (a) great concern about achievement of results and the responsibility of managers; (b) flexible organizations, personnel and employment terms; (c) clearly defined personal and organizational objectives and development of performance indicators; (d) senior staff politically committed to the government of the day rather than being non-partisan or neutral; (e) the use of the market to run government functions such as contracting out; and (f) a trend towards reducing government functions through privatization. This new emphasis challenged the traditional management and organization of public services, based as they are on the following: (1) the assumption of self-sufficiency, that when a public organization is responsible for a function, it would normally carry out that function itself, directly employing the staff required to do so; (2) the assumption of direct control, that control over the activities in public organizations is best exercised through continuous supervision by a hierarchy; (3) the assumption of uniformity, that is, when a service is provided it should be provided on a uniform basis within the jurisdiction of the organization; (4) the assumption of accountability upwards, that the accountability of the public servant to those who receive a service is made through the political process; (5) the assumption of standardized establishment procedures, that staffing policies require the application of standardized practices throughout the service (Stewart and Walsh 1992).

Table 1 compares different elements of the NPM reforms with the characteristics of traditional public service administration. Hence, the NPM call for a new emphasis focusing on decentralization, flatter hierarchies, funding projects, contracting out, and systems of co-production or public-private partnerships (Richards 1989). It suggests empowerment of both customers and public employees; that is, customer-driven government that meets the needs of the customer, not of the bureaucracy. These characteristics are in fact the opposite to those of traditional Portuguese administration which stresses centralized hierarchical organizational structures with direct control over the activities of public organizations.

The centralized nature of administrative structure is based on the French

TABLE 1 *NPM reforms compared with traditional public service administration*

Elements	Traditional administration	NPM
Government organization	Services provided on a uniform basis operating as a single aggregated unit	Break-up of traditional structures into quasi-autonomous units
Control of public organizations	Control from the headquarters through the hierarchy of unbroken supervision and checks and balances	Hands-on professional management with clear statement of goals and performance measurement
Control of output measures	Control on inputs and procedures	Stress results and output control rather than procedures
Management practices	Standard established procedures throughout the service	Using private sector management style
Discipline in resources use	Due process and political entitlements	Check resources demands and 'do more with less'

Source: Adapted from Hood 1991

model. Local government itself is still relatively weak and dependent on central government. In 1996, only 16.6 per cent of civil servants worked in local government (SEAPMA 1998). There was a uniformity of service delivery whose structure, power and mission were enacted by legal statute. Public services are provided through uniform structures established throughout the country, operating as a single aggregate unit controlled in the capital. The legitimization of administrative action comes from its compliance with the law; legalism is therefore the most important source of power and protection in the administrative system. Activities are strictly organized to follow legal requirements. These therefore justify administrative activity; equally, they justify administrative inaction and protect from external criticisms. There is a focus on legal and administrative control of inputs. The control of public service management is made on an administrative basis which focuses on the control of legality. Performance measures are regarded as a threat and an interference in administration which collides with paternalistic and personalistic values. The density of rules limits the freedom of public officials in handling financial resources, staff and contracts. Hence, the administrative system exhibits many of the characteristics associated with traditional bureaucracy (Araújo 1999).

NPM has been a fundamental challenge to the tradition of public administration and has dominated the reform movement in many Western countries. Portuguese public administration has not been immune to this international trend of NPM. Despite some scepticism of Portuguese reformers about the NPM agenda and the traditional foundation of its administrative system, some innovative ideas have been introduced. Indeed, three overall objectives guided reform proposals during the 1980s: providing better services for users, increasing the skills of civil servants and improving resources management. According to Hood (1996) Portugal

ranks medium among those OECD countries where the extent of adoption of NPM doctrines has been measured. However, the emphasis on the rule of law, the tradition of bureaucracy, its centralized nature, the control through the hierarchy, the lack of accountability, the focus on processes and inputs – as well as bureaucratic resistance to change – have hampered the success of such reforms (Araújo 1999).

Citizen Shops raise several issues which are worth analysing. How did a traditional bureaucracy transfer/adopt ideas such as NPM and quasi-autonomous units? Are the CS a managerial innovation, a movement toward agencification of public service delivery or just a new look for old ways of service delivery? What is the rationality of CS? Do they meet the needs of customers or the needs of bureaucracy, or are they simply a fad and fashion of politicians? Or can the CS be seen as an attempt to change a culture of public services that has been dominated by the traditions of the Portuguese bureaucracy. Klages and Löffler (1998) suggest that 'public organisations and their broader institutional environment are influenced by a set of new ideas on public management which are referred to as *universal NPM*' (original italics). Is this the case of Citizen Shops or does the institutional framework, the prevailing culture in a system, constrain the choices of modernization strategies? (Peters 1999).

REFORMING SERVICE DELIVERY IN PORTUGUESE ADMINISTRATION

The ideas of New Public Management and the reform experiences of other countries have influenced administrative reform in Portugal. This in turn has impacted on the structure and functioning of government. For instance, the size of government was reduced through the sale of state-owned enterprises – following the British model implemented in the late 1970 – which made Portugal 'the third largest privatiser in the OECD, after the United Kingdom and New Zealand' (OECD 1994, p. 64). Reform included changing structures, work methods and procedures. An enormous programme of training was developed to promote cultural change and 'to bring the administration closer to its clients', and the introduction of a more responsible and open relationship towards citizens became a reform priority.

In addition, initiatives such the Quality Programme were applied as a counterpart to the cultural change implemented in 1993; such initiatives aimed at improving relationships between citizens and the administration from a citizen-oriented base. Prompted by pressures from both citizens and enterprises, the programme had among its main targets transparency, simplification and participation. A Quality Charter, approved by the Council of Ministers, invited ministries and local authorities to develop sectoral quality charters and to set up quality standards. In addition, an Ethical Public Service Charter, setting out the duties of civil servants with regard to quality of service, competence, courtesy and dedication, was established.

Other initiatives to empower citizens included the establishment of an Ombudsman and the adoption of a Code of Administrative Procedure (*Código do Procedimento Administrativo*) with 188 articles focusing on citizens' rights during the administrative decision-making process. The Code aimed to safeguard the transparency of administrative actions through access to information mechanisms and participation in decision-making for those directly interested.

With regard to information held by public services, a committee under Parliamentary control ensured compliance with 'the citizen's right' to consult administrative documents relating to public services and to have copies of them if necessary (Decree-Law 65/93). At the same time, the obligation of public services to answer complaints and suggestions from citizens was established, and every public service was required to possess a 'Complaints Box' in which citizens could record complaints and suggestions. Since this had a limited impact on public services, further regulation established the 'Yellow Book' (Portaria 189/96). This introduced the principle that complaints should be sent directly to the appropriate Minister for action.

However, it has to be said that most of the proposals failed to get off the ground and even in those ministries that embraced the idea of reform there was bureaucratic resistance to change. There are no effective enforcement mechanisms, and there are very few scholarly studies on the impact of these reforms other than those that are publicly available. The practice does not exist in the Portuguese administrative system to evaluate the impact of public policies: thus, apart from the annual budgetary auditing work undertaken by the Accounting Court, there are no systematic evaluations of such policies. However, there are some indicators, such as reports, that help to assess the impact of reform in public services. For example, the report on *Renewing the Administration* (CQRAP 1994) points out the need to develop three strategic targets for reform: improving the quality of public service delivery, streamlining procedures and promoting training.

The Citizen Shops initiative appears to be a new approach, based on the strategy outlined above, to improve the relationship between the administration and citizens. According to the directive that set up the programme, it aims 'to increase debureaucratization, to rationalize and streamline structures and administrative procedures, and to point towards a modern Public Administration to serve the citizens' (Resolução do Conselho de Ministros 176/97). This endeavour seems to have overtaken the traditional bureaucracy's resistance to change by introducing new administrative structures to which the government of the day has strong political commitment.

BREAKING-UP TRADITIONAL STRUCTURES: THE MANAGEMENT INSTITUTE OF CITIZEN SHOPS

The aim of the Citizen Shops' initiative is to establish modern and up-to-date organizations in the main cities to deliver a high quality public service. The initiative is managed overall by the *Instituto de Gestão das Lojas do Cida-*

ção (Management Institute of Citizen Shops – MICS), a central agency that is responsible for the creation and implementation of the Citizen Shops. The MICS is a public institute (part of the indirect administration whose budget in 1999 was about £10 million); public institutes are autonomous government bodies which are progressively replacing the ‘monolithic’ units of ministries, breaking-up traditional structures such as the directorates-general into autonomous structures. The MICS was created according to a special statute, a kind of agency which has financial and administrative autonomy that, for certain matters, comes under the statute of public enterprises. This gives it special powers to develop its own activities and greater flexibility to manage its own resources. It is made up of central and local organizations and its internal structure was influenced by the model of corporate governance.

At the central level it consists of a president, who is appointed by the government and has a three-year mandate, and who is responsible for the management of MICS, together with a board of directors which is chaired by the president. There is an Institutional Council, a consultative body that consists of the members of the board, as well as representatives of the public and private services responsible for running the Assistance Points in the Citizen Shops. There is also a Controller, who regulates and scrutinizes the financial management of MICS.

At local level, the Citizen Shops are geographically dispersed, functional and operative units of MICS responsible for maintaining all the necessary operating conditions for the proper functioning of the Assistance Points, which have a strict hierarchical dependence. They are service organizations without any sort of power or autonomy and represent the operative branch of the MICS. Their target is to set up the conditions required for the optimum functioning of the Assistance Points which operate within the Citizen Shops. Neither the CS nor the Assistance Points have separated the delivery of services from their policy-making aspect; they simply represent another counter service, in a modern and well-designed space, which is available for citizens and that tries, in a more business-like atmosphere, to process people’s requests for official documents, payment of taxes, utilities and similar services. In other words, they enable the citizen to accomplish the bureaucratic processes imposed by the state. They are managed by a *Unidade de Gestão* (Management Unit – MU) which is responsible for the running of the Citizen Shops’ premises. The MU has a manager and three deputy managers (three of whom come from the private sector and the fourth from the public sector), and is charged with providing the best possible conditions in the space within which the Assistance Points carry out their work. The Citizen Shops provide the office equipment, including computers, tables, chairs and the like, and are also responsible for the cleaning, maintenance and management of the public spaces. A consultative body, *Conselho de Parceiros* (Partner Council – PC), consisting of the Manager of the Shop and one official from each Assistance Point in the Citizen Shop,

aims to discuss the management of the Citizen Shop and listen to the views of the staff at Assistance Points. However, as was the case with the Institutional Council, the similar body at the MICS, the Partner Council cannot be said to have worked. Thus, the MICS is the agency which, through a hierarchical and highly centralized system, controls and co-ordinates all the operative services – the Citizen Shops.

The control of MICS

Despite the financial and administrative autonomy of MICS on issues such as financial and organizational management and appraisal and scrutiny of quality standards for the Citizen Shops, the MICS statute states that the member of government who has control over the Institute also has powers to judge the decisions of the MICS board: for example, concerning citizens' rights and interests; ratifying the budget and the annual activity plan; creating new services; and giving details of the annual report, accounts and balances (Decree-Law 302/99, art. 2). This means, in practice, that the autonomy of MICS hardly exists since the powers held under the guardianship of the state are comprehensive enough for interference in any aspect of its management – this is a long way from the NPM idea of 'let the manager manage'. But the involvement of politicians in the management of agencies is not new in Portuguese public administration, or even in countries where the separation of the political process from the management process follows a more radical approach. For example, in the United Kingdom, Stewart and Walsh note that 'the involvement of the Secretary of State [in management issues] was inevitable and was reflected in numerous statements' (1992, p. 506). Despite the largely autonomous nature of MICS there is a strict dependence from the minister.

Management practices

The 'statute of institute' held by the MICS gives a greater level of flexibility for financial and personnel management than is allowed in the traditional civil service. Most of the staff are employed on a contract basis and have previously worked in the private sector. The minister responsible for the sector and the prime minister appoint the president and the five other members of the MICS executive board, all of whom work according to the statute of 'Public Manager'. With regard to the Citizen Shops, the manager and two of the deputy managers will have formerly worked in the private sector and now work under contract. The third deputy manager belongs to the civil service career structure but works under a special dispensation called a 'service commission'. Concerning financial management, the MICS has its own revenues and a private budget, which are all one part of the budget approved by the Assembly.

CONTROL AND MANAGEMENT OF OPERATIONAL UNITS: THE CITIZEN SHOPS

The Citizen Shop (CS) is a new concept of service delivery whose major concern is speed and efficacy rather than cost. Each CS has around 22 Assistance Points that cover such areas as the Registry and Notary's office (responsible for issuing identity cards or other official documents such as birth and death certificates, and other notary services); all information about, and payment of, taxes; application for benefits from social security; renewal of driving licences; application for passports; a job centre; utility services (applying for a service, paying bills, complaints); a banking service, and so on. The services provided by the Assistance Points, as has been said, are extensions or delegations of traditional public services (Decree-Law 187/99) and have no autonomy.

The supervision of Citizen Shops

The relationships between the central agency and the Citizen Shops are hierarchical, but at this point in their lifespan they are not formal. According to a respondent in this study, 'there is an open relationship with the MICS. They set up the guidelines and within them I do what I think is correct' (interview 15/12/1999). There are no institutionalized managerial control mechanisms. Communications between the Citizen Shop and the MICS are informal, through direct contact between the manager at the CS and the president of the MICS. Because of a lack of power of decision at local level, the Management Unit have a duty to report everything to the central agency. The CS itself has no financial autonomy nor has it even a budget. Financial management is undertaken centrally in Lisbon by the MICS. Whenever any expenditure is needed at the Citizen Shop, for example, to purchase equipment, the manager has to contact Lisbon with a proposal for the supply. Lisbon makes the decisions according to the suggestion of the CS's manager. The same procedures apply for claims submitted by an Assistance Point for some equipment or minor purchase. A well-developed IT system has established a network between the Citizen Shops and the central agency which makes it possible for Lisbon 'to know everything what is going on except about the behaviour of our staff' (interview 15/12/1999). This pattern is typical of the Portuguese administrative system, where strong centralization concentrates all decisions in the capital. It is notable that the hierarchical control didn't change even in daily management issues. In this respect, the new technologies seem to be an excellent tool for exercising and extending centralization.

The control of outputs measures

The nature of centralized management in Citizen Shops is different from experiences in other countries. For instance, according to Mellon (1993, p. 25), executive agencies in the UK operate under a centralized structure because of the nature of external control: they are held formally and visibly

accountable. They function according to a quasi-contract, with clear targets and performance indicators, and are held responsible by a system of reports and performance mechanisms that works as a guarantee for the effectiveness of their operations. The government decentralized power to the actual people who were engaged in providing services and who were therefore in the best position to determine improvements (Harrison 1993, p. 8). Conversely, in Australia, reform removed unnecessary central controls and emphasized programme results rather than administrative means (Hamilton 1990, p. 67). Pollitt (1993, p. 56) described this as a 'neo-Taylorian' management philosophy, because of the strengthening and motivating of line management. In the Portuguese case, the decentralized nature of management has not followed the same pattern. Decentralization was neither dictated by managerial philosophy nor by external control such as, for example, quasi-contracts, clear targets, reports or performance indicators.

Concepts of clear targets, performance indicators and responsibility through performance mechanisms collide with a culture that is strongly influenced by legal control and traditional administrative procedures. It has been argued (Araújo 1999) that the Portuguese system has a centralist nature and its control occurs on an administrative basis, where performance measures are regarded both as a threat and an interference in administration as well as colliding with paternalistic and personalistic values. The central agency and local units both operate without clear performance measures or established targets. Thus the link between resources and results, which is a central element of NPM reform, has no impact in the Portuguese case. The Citizen Shops did not borrow any of these features from NPM. Instead, the structure and functioning among the agencies responsible for improving service delivery followed the characteristics of Portuguese bureaucracy. Managers are not 'free to manage' within their own spheres of responsibilities, and within a framework of control of a quasi-contractual nature, but are under discretionary control from the member of government who has control over the MICS which, according to the statute, can intervene in almost all areas of service management. In the case of the Citizen Shops initiative, there is path dependency (North 1996) concerning the control and monitoring system. By path dependency I mean the process by which practices and procedures persevere because initial choices preclude future actions.

Personnel management

In terms of personnel management, there is a shift from high security careers toward short-term employment contracts. Most of the staff working in the Assistance Points work on a two-year contract basis. After this term has elapsed they must quit the job. The argument for this requirement is that after a two-year contract in a job in the public sector, staff must become career civil servants. The exceptions are those few employees who are

already career civil servants and are working in the CS or the Assistance Points as part of a service commission. They play the role of co-ordinators since they have the appropriate knowledge of the functioning of the public services. For example, in the DGRN (Directorate-General of Registry and Notary) Assistance Point, there are 57 individuals working under contract and 9 co-ordinators who belong to the civil service career structure. This allows the flexibility of hiring people through the employment system, and brings 'new blood' and people with different experiences into the Citizen Shops.

Recruitment is carried out on the basis of skills and competence, and the skills of new staff are constantly improved by training courses and apprenticeship. For example, the social security ministry sends its best officials. Recruitment is undertaken carefully, taking account of the psychological profiles of personnel. There is a perception that the staff in the Assistance Points have come from the 'elite' among civil servants.

Training is another issue which receives special attention. All staff who work in Assistance Points join two training courses – one concerning new technologies and the other involving socio-psychology. The co-ordinating members of staff also attend another course on leadership. Each course lasts an average of four days, in addition to two months of apprenticeship in public services. An interviewee commented that, 'in fifteen years working in the civil service I did one training course. After four months working in the CS I am doing a third training course' (interview 15/12/1999).

Personnel appraisals of civil servants working in the Assistance Points are made according to the rules of the system established for the civil service and through assessments made by a psychologist to discern the need for training. This concern about training personnel to perform their tasks is something that is innovative in the civil service. Indeed, the pursuit of quality means that recruitment, training and development of all staff is critically important. Training is an important means through which the values associated with customer care and the behaviour intended by the CS can be inculcated.

Management and operations in the Assistance Points

The structure of CS is centred around key concepts such as speed of response, quality of service and customer relations. The first target and concern of the CS is the quality of service offered to citizens, and it can take some comfort from the obvious improvements in quality of service. There is a clear aim that a quality service should be provided in a timely and accurate manner. Despite what has been said by reformers (Resolução do Conselho de Ministros 176/97), an interviewee drew attention to the fact that debureaucratization, streamlined processes and reduced red tape were not the target of CS (interview 12/01/2000). The functions carried out in Assistance Points seem to combine the underused potential of the resources available in the public sector with well-trained staff and some

cosmetic additions in order to present a modern and fashionable space in which the citizens can shop around for bureaucracy. According to an interviewee, the strategy followed was *not* to change the institutional framework and the pattern of Portuguese bureaucracy. The requirements for citizens to fulfil their administrative obligations did not change. Debureaucratization, streamlining of processes or reducing bureaucracy were not part of this initiative, with the exception of those aspects that resulted from the intensive use of IT.

Use of IT

It was clear from the interviews that the great advantage of CS and the success of Assistance Points has been due to the extensive use of IT facilities and databases. All the Assistance Points can access the databases that are available as part of the Portuguese Administration system, a privilege not permitted to the majority of the traditional services. The Assistance Points can also use electronic data to receive and transfer any kind of information. For instance, the use of IT is a great advantage for an Assistance Point offering Registry and Notary functions. They use the new technologies to the fullest extent (something that does not happen in the traditional services) and can therefore process requests from citizens extremely quickly. The Assistance Points in the CS are, without exception, able to use fax machines to send official documents and to authenticate them, a facility that was later extended by Decree-Law to other public services. Thus, it has been IT and access to databases that has improved service delivery and reduced the time taken for bureaucratic processes. An interviewee working in the Assistance Point of the Treasury pointed that the new technologies are not implemented in the traditional services (interview 15/12/1999). They exist but are not utilized. The use of IT has also changed procedures. In the Assistance Points it is possible to do things that cannot be done in the traditional services, such as helping people to fill in forms, or to consult information sources. But this seems to be also a result of leadership. One interviewee, asked about why this had not happened in the traditional services, answered by saying that it was because of the lack of leadership and the absence of the tools and conditions required to deliver a quality service. Other employees at Assistance Points emphasized the same issue. The availability of IT and the access to databases allowed them to perform a better and more rapid service. For instance, applying for an Identity Card in the CS is different from applying for one from the traditional services. The traditional registry services have no training in the use of databases, nor are they authorized to use them.

Another issue that distinguishes the CS from the traditional services is the quality of attendance. Citizen Shops have introduced changes both of style and presentation; certainly their external appearance impresses their users. All members of staff wear a uniform, the space is modern and well decorated and interviews are carried out on an individual basis. The CS

seeks to create an outward-looking and user-focused service for the public, and their employees are constantly reminded of the reasons why the organization exists. For example, a vehicle registration certificate will be sent to the citizen's home address, something which does not happen in the traditional service. Highly motivated and qualified employees are a key element in the quality of service delivery. An interviewee (interview 15/12/1999) pointed out that there was a difference in behaviour from both the official and the citizen. Because of the quality of the surroundings and the level of attention, citizens have no need to complain, while the officials who work at the CS have come to the service voluntarily; in addition, they have good equipment and offices. This atmosphere has created a certain competitiveness among Assistance Points over delivering the best service and in trying to compete with the traditional services. The number of citizens using the CS services is increasing, and in January 2000 the CS at Porto was dealing with around 3500 citizens daily.

Operations in the Assistance Points are, however, constrained by the dependence on the traditional services, and any functional problems are due to the difficulty of liaison with the traditional services. The timetable of the CS and the speed at which they work collides with other public services and the normal functioning of the administrative system. Most requests from citizens need to be processed through the traditional services, and in these cases the use of IT, and particularly of the fax, is particularly valuable. However, a degree of dysfunctioning sometimes occurs, because the traditional services delay their answers to requests from the Assistance Points, either because it is not possible to use the database on Saturdays, or because the traditional services are closed and cannot be used.

In summary, the management innovations introduced by the CS are:

- (1) the new style of public attendance, in which each staff member at the Assistance Points is trained in customer assistance and tries to offer a 'service model' of attendance;
- (2) intensive use of IT and full use of the databases available within the Portuguese Public Administration system;
- (3) attempts to provide feedback in order to overcome problems and change the traditional services.

However, as discussed above, the improvements introduced by the CS have not changed the substance of the public services themselves. The management of the Assistance Points follows the same traditional pattern with a focus on procedure; traditional institutional features still persist. There is no liaison among services with little lateral communication among them. Citizens have to go from one service to another, shopping as it were for bureaucracy. Decisions are taken at the centre and implemented through a hierarchy in a similar way to that of the traditional services.

ASSESSING THE CHARACTERISTIC ELEMENTS OF CS

The Citizen Shops initiative did not challenge the prevailing traditional structure that exists in Portuguese administration; nor did it try to create a connecting network among the services provided by the CS. Assistance Points do not liaise with or co-operate amongst themselves. Rather it is the citizen who must shop around for public services by going from one Assistance Point to another. There is no network of public services or crossing over of information among them, except for the information available on those databases that can be accessed. Furthermore, the Management Unit (MU) does not liaise with the Assistance Points, nor is there any functional or hierarchical dependence between them. The Assistance Points are independent from the MU and report directly to the service to which they originally belonged. Relationships between the MU and the Assistance Points are informal and open, but are restricted to the conditions available in the CS for the optimum functioning of the Assistance Points. Other experiences in service delivery, such as the 'single windows' project in Spain, promoted co-operation among public services through formal agreements (Córdoba 1999).

The 'new' organization did not shift the locus of budgetary authority and managerial responsibility from the centre to a point close to the delivered service, as happened in other countries. The CS and the Assistance Points are hierarchically dependent on traditional central departments, and are funded by them through the normal budgetary process, without having administrative or financial autonomy. In the same way, the autonomy held by the MICS is severely constrained by strong supervision from the ministry involved. This is far from the normal NPM trend, in which a key point about the autonomy granted is that it seeks to decentralize budgets and to take authority away from the centre.

In certain ways the Citizen Shops are competing with traditional public services. They have the same range of services, but their purpose is to provide a quality public service, particularly one within legally-established deadlines, according to a more convenient timetable and in a more comfortable space. The CS are open Mondays to Fridays from 8:30 am until 19:30 pm and on Saturdays from 8:30 am to 15:00 pm. At the same time, they aim to eliminate the need for citizens to trudge from one public service building to another to obtain official documents and they enable them to find a greater range of public services in the same building. Thus, they offer a sort of inducement for citizens to choose the Assistance Points at the CS rather than the traditional public service. An interesting point, concerning the importance of political commitment as well as who benefits within the CS, was raised by an interviewee who commented that 'competition with the traditional services is about working conditions, salary, staff and availability in budgetary issues from the Directorate-General on whom we depend: this doesn't happen with the traditional services where everything

is difficult to get' (interview 12/01/2000). Indeed, in the CS, there is more flexibility in resources management and resources allocation, because the MICS has financial and administrative autonomy, something which is not the case with the traditional services.

The accountability process follows the traditional pattern. Appraisal of the activity of MICS or the CS is made through a vague measure: that is, the level of satisfaction of the citizen (about which nothing has so far been definitively established). In terms of the activity of Citizen Shops, there are no cost benefit analyses or other sorts of evaluation. For instance, where many countries have introduced more result-oriented management and set up evaluation criteria for performance, the CS has really only concentrated its attention on service delivery. The matter of evaluation is an issue that was not under analysis when this initiative was designed (interview 12/01/2000). Since there are no performance agreements to ensure internal accountability to the employees at the CS or to the staff working in the Assistance Points, how is performance measured by the CS? In NPM, techniques such as surveys may yield important data for evaluating citizen satisfaction with service delivery. Explicit standards and measures of performance are other elements of NPM. With CS and MICS, however, everything to do with performance evaluation is either vague or not yet established. For example, there are no public statements on the standards of service that users have the right to expect, such as the Citizens' Charters in the UK and the *Chartes des Services Publiques* in France. Enhancement of services follows the top-down traditional process where the central agency determines what is the best service for users. For instance, the interviews conducted indicate that the CS are providing something which was set up and decided centrally by the agency responsible for creating, co-ordinating and directing them, the MICS, but without any consultation. Indeed, the task force responsible for creating the CS decided centrally on the very criteria by which the services available in the CS were chosen: these included the frequency with which citizens used the services, the impact on citizens' lives, and the nature of the services which wanted to participate in the CS initiative.

Responsiveness is generic and concerns the quality of interaction between Assistance Points and their clients, but it does not pinpoint any standard. There is no critical judgement or appraisal about either the way in which things are done or why some things are done. Moreover, complaints from the citizens are dealt with according to established routines and there is no innovation on this issue. The citizen is invited to fill in the form in the Yellow Book and send the complaint to the official responsible. The Yellow Book, as noted above, is a complaints book set up for all central public services. After the citizen has completed the form, the official sends a copy to the minister or the Secretary of State who will take appropriate action. Neither the MICS nor the MU at Citizen Shops interfere in this process. But there is a feeling among interviewees that citizens avoid making com-

plaints in Citizen Shops. 'The "aesthetic atmosphere" restrains uncontrolled emotions. This is an advantage of the CS' (interview 15/12/1999).

In summary, the Citizen Shop initiative established an autonomous structure to delivery services in 'competition' with traditional organizations. It focuses on professional management, stressing private sector styles of management and a public service orientation. However, most of elements of Citizen Shops correspond to the characteristics of traditional administration: (a) they did not aim to decentralize power to the people involved in delivery services; (b) they did not increase the evaluation of service delivery in order to increase their performance; (c) they tried to train officials in an outward-looking culture, but without overemphasizing the aim of the organization; and (d) they encouraged the involvement of officials, but did not reduce or eliminate the bureaucracy. The Citizen Shops, whose effectiveness has not yet been evaluated, appear to embody a political commitment to service delivery. Although increasing numbers of citizens are using the services, there are no studies on the cost-benefit analysis of the huge investment and on the operational costs of this initiative. In what Dunleavy (1991) terms its 'bureau-shaping model', it seems to meet the interests of the bureaucrats more than it meets the needs of citizens. Indeed, the agency responsible for the CS does not, on its own admission, know much about what people want. The solutions implemented are the result of central decisions. There is always an unanswered question: would the traditional public services improve their level and quality of service if they could have the resources they need to modernize? After all, the Citizen Shops are not a break from the traditional model as the NPM model would suggest. There are no contractual relationships, clear target definitions or even concerns about measuring performance and 'doing more with less'. On the contrary, it seems that the cost of running the Assistance Points is high. The rents paid by Assistance Points do not cover the running expenses of the CS and it is the MICS that is responsible for paying the remaining costs (interview 12/01/2000).

CONCLUSION

The purpose of this paper has been to analyse the ways in which a traditional bureaucracy transfers new ideas such as NPM, by looking at the Citizen Shops initiative. The data showed that the extent to which new ideas were imported from NPM was limited and constrained by the institutional framework and the culture prevailing in Portuguese bureaucracy. The CS reproduced the hierarchical and centralized nature of service delivery and followed the traditional patterns of control.

The concept of the quasi-autonomous unit is limited in its extent and the introduction of performance evaluation; the emphasis on results; the adoption of market or quasi-contract forms; collide with the traditional culture, the normative framework and practices established in Portuguese administration. Certainly, this experience has not shown the impact which

NPM types of reform have had in other countries that were committed to 'doing more with less'. On the contrary, it seems that in the Portuguese case the idea has been 'to provide better spending for more' and to adjust new technologies and private sector ideas to the traditional system. Perhaps the reason for the persistence of traditional characteristics is that the initiative was designed and implemented by senior officials whose ability to innovate and break with old practices, their mind-set and worldview, limited their understanding of the change. According to March and Olsen (1996), organizations develop a normative framework which influences the self-conception of people in organizations and shapes the definition of alternatives. Are the Citizen Shops just 'old wine in new bottles'? The answer seems to be in the affirmative. The Citizen Shops represent a kind of agencification, and seem unable to overtake traditional bureaucratic practices and pathologies in serving citizens. Managerial innovations are limited, and are hindered by the practices prevailing in the Portuguese system. In fact, the existing structure is an important constraint on NPM development. The CS seem to follow a strategy which Bouckaert (1995, p. 163) describes as moving 'from a producer-focused traditional bureaucracy to a producer-focused volunteer co-production or auto-production'; that is, one where the producer is oriented towards the inside of the organization and the customers are involved at different levels, but do not really change the balance of power. Overall, there was somewhat conservative change that tried to undermine traditional services by providing parallel services of better quality while at the same time keeping the substance of the system intact. An important issue for further research will be to examine what might happen to Citizen Shops in the future. Will politicians be able to continue to finance such a project and at the same time retain the traditional structures? Or will the traditional structures disappear?

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PUBLIC MANAGEMENT

CONVERGENCE: THE USEFUL MYTH?

CHRISTOPHER POLLITT

Many academics have questioned the thesis (most prominently associated with Osborne and Gaebler's *Re-inventing government*) that there is an inevitable and global convergence towards a particular, new style of public management. Yet, despite the ongoing production of scholarly evidence of global diversity, pronouncements of convergence continue to be made by politicians, civil servants and some academics.

In this paper it is suggested that, better to understand this apparent controversy, a more subtle conceptualization of convergence is needed. First, convergence can take place at different stages or levels – for example, there can be convergence in debate, convergence in reform decisions, convergence in actual practices, or, ultimately, convergence in results. There is no automatic succession from one stage to the next: the momentum of convergence can (and frequently does) stall or dwindle at any point. Furthermore, it should be recognized that convergence claims may have a value of their own, whether or not they lead to actual convergence of practice or improvements in outcomes. Convergence, in short, may be a useful myth.

INTRODUCTION

There now exists a considerable academic literature debunking the idea that there is an international convergence towards the 'New Public Management'/'Reinventing government' styles of public management reform. Many – though not all – comparativists favour arguments that show continuing national diversity (Flynn and Strehl 1996; Hood 1996; Kickert 1997; Olsen and Peters 1996; Pollitt and Bouckaert 2000; Pollitt and Summa 1997; Premfors 1998; Wollmann 1997). Most academics are now able to recite standard criticisms of the Osborne and Gaebler thesis that global pressures are producing an inevitable and inexorable global convergence

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on what they term 'entrepreneurial government'. On the other hand, other, equally distinguished, academics recognize extensive international commonality of themes, or describe strong mechanisms whereby international 'copying' of management ideas has taken place (Halligan 1996; Kettl 2000).

The main aim of this paper is to develop a concept of convergence that will help us understand why many commentators continue to invoke convergence, despite this apparently abundant evidence of continuing national differences. The strategy will be to ask whether the very *idea* of convergence perhaps has a value of its own? This usefulness could exist *whether or not much 'objective' convergence of administrative practices and reform trajectories takes place 'on the ground'*. Perhaps some of us academics (*mea culpa*) have taken the whole issue too literally or, at any rate, too empirically, and have thereby rather missed the point? Just as, in religion and art, the creation myth has been able to serve many purposes – whether 'true' or not – perhaps, in public administration, the convergence myth also has its uses?

There are four main steps to the argument. First, we can divorce the process of convergence from ideas of global and functional imperatives. This can be done by summarizing the (still-developing) critique which has been articulated by comparativist scholars.

In the second step the notion of institutional isomorphism is introduced (DiMaggio and Powell 1991). Using it, we can see that convergence, in the sense of the replication of rhetoric, forms and practices across the world, may have more to do with government fashions, symbolism and the propagation of norms than with the grim dictates of the global economy or the functional necessity for increased efficiency.

The third step is more radical. It involves acknowledging that words and concepts can develop lives of their own, and that a great deal of *talk* can develop around concepts such as the New Public Management (NPM) without that necessarily signifying an equivalent amount of action in the same direction. As the Swedish scholar, Niels Brunsson (among others) has argued, observers of organizations – perhaps especially public sector organizations – are prone to 'make the mistake of supposing that organisational statements and decisions agree with organisational actions' (Brunsson 1989, p. 231).

The fourth and final step will then be to analyse who benefits from a situation where convergence is much more a matter of talk, symbolism and pronouncement than of day-to-day practices. This may assist us in coming to an understanding of how a myth of convergence may have grown up, under what conditions it remains useful, and to whom.

For the avoidance of confusion, two preliminary disclaimers may be necessary. First, the line of argument advanced here is not intended to seem Machiavellian. The imputation is certainly *not* that there has been a concerted global plot to pretend that there is convergence, when actually the plotters all know perfectly well that there is none. On the contrary, if it is true that there is far more talk about convergence than there is real conver-

gence in action, then that can be explained in terms of normal organizational and political procedures – of people behaving rationally and straightforwardly within their own frames of reference and sets of incentives and symbols. Significant divergences between talk, decisions and actions are often the norm in organizational life (Brunsson 1989). As Di Maggio and Powell put it (1991, p. 3):

Studies of organisational and political change routinely point to findings that are hard to square with either rational-actor or functionalist accounts. . . . Administrators and politicians champion programs that are established but not implemented; managers gather information assiduously, but fail to analyse it; experts are hired not for advice but to signal legitimacy.

The second disclaimer is that to attempt a partial rehabilitation of the idea of convergence is *not* in any way to deny the diversity of national regimes and practices (see, for example, Chapters 3 and 4 in Pollitt and Bouckaert 2000). What will be discussed here is mainly a convergence of talk, of organizational labels, and, to some extent, of external forms. There is still ample room for continuing plurality in action and practice, for historical variety, and for accidents and idiosyncracies.

RESCUING CONVERGENCE? FIRST STEP: A CRITIQUE OF IDEAS OF GLOBAL AND/OR FUNCTIONAL NECESSITY

The most-often repeated arguments for convergence towards the NPM seem, at root, to be either globally deterministic, or functionalist, or both. Osborne and Gaebler, for example, say that 'the rise of entrepreneurial government' is 'underway throughout the developed world' (1992, p. 328). This process is, they claim 'inevitable' (p. 325) – the pressures of the modern age will eventually oblige everyone to follow suit. Many other accounts tend to follow the same broad line: global economic pressures are forcing governments to seek administrative organizations which, in the American phrase, 'work better and cost less'. In 1993, a British minister put the matter thus:

All around the world Governments are recognising the opportunity to improve the quality and effectiveness of the public sector. Privatisation, market testing, and private finance are being used in almost every developed country. It's not difficult to see why. (Dorrell 1993)

More recently, a highly respected American scholar opened a report on *The global public management revolution* with the words:

The movement has been striking because of the number of nations that have taken up the reform agenda in such a short time and because of how similar their basic strategies have been. (Kettl 2000, p. 1)

Rational choice theories also tend towards functionalist explanations: if

new organizational forms (such as executive agencies or contracting out) are becoming more popular, it must be because they represent a more efficient solution to the minimization of production and transaction costs, or because they ease monitoring problems, or because the resulting redistribution of property rights will enhance incentives for efficiency (van Thiel 2000). Finally, there is also a strongly surviving brand of contingency theory, which continues to pursue functional/rational explanations, asserting that similarities of organizational form are best explained in terms of the pursuit of efficiency (Donaldson 1995).

There are many problems with the use of these types of explanation for convergence. To begin with, they are greatly weakened by the continuing evidence of extensive diversity, variety and historical continuity in national reform trajectories (see, for example, Christensen and Laegreid 1998; Guyomarch 1999; Pollitt and Summa 1997; Pollitt and Bouckaert 2000; Premfors 1998; Wollmann 1997). A charitable interpretation would be that global pressures oblige governments to do *something*, but do not determine with any precision exactly what they actually choose to do. So it doesn't force them to 'do NPM'.

Yet even this modified formulation may overstate the notion of 'global pressures'. Pressures there undoubtedly are, but they do not affect all countries in the same way. The evolving, 'globalized' economy still contains different kinds of niche, so that, even in respect of economic positions, each country starts from a somewhat different position, more vulnerable to some kinds of pressure than others.

Methodologically, also, the approach of Osborne and Gaebler and some of their fellow-travellers is somewhat suspect, not only because of their over-reliance on anecdotal case studies but also because they only look for evidence of *similar* developments. This is a biased selection procedure. To construct a more balanced overview of trends in administrative reform would require the researcher to devote equal energy to the search for *other* things that may be happening – things which may not fit into the entrepreneurial government/NPM model at all (see Polidano 2000 for some good examples).

Functionalism is then further embarrassed by the paucity of scientific evidence for the efficiency gains which are supposed to result from these innovations (see, for example, Boyne 1998; Pollitt 2000). Take the creation of executive agencies and quangos. This has accelerated in many countries, but a recent literature review indicates that: 'So far, there is no evidence that policy implementation by quangos is more efficient or effective than implementation by government bureaucracy' (van Thiel 2000, p. 15; see also Ter Bogt 1999 and, for the UK, Gains 1999). Even a skilful defender of the convergence hypothesis admits that 'no good, reliable data are available in any country regarding the savings that the reforms produced' (Kettl 2000, p. 51).

Of course, this is not to argue that NPM-type innovations never work.

But it is a step along the road to arguing that contextual factors – not usually specified in the NPM model – are actually crucial. An organizational form (executive agencies) or technique (Total Quality Management) which may achieve real efficiency gains in one setting quite fails to do so in another (see, for example, Polidano 2000; Pollitt, Birchall and Putman 1998; Zbaracki 1998). Yet this theoretical refinement, useful though it is, still leaves us well short of a rounded understanding of the convergence phenomenon. To put it simply, if the adoption of NPM forms and practices have not been accompanied by consistent, verifiable gains in efficiency or effectiveness, why have these forms apparently continued to spread?

SECOND STEP: ISOMORPHISM

One possible answer lies in the 'new institutionalist' literature. In a seminal article, Powell and DiMaggio argued that the copying of organizational forms owed a great deal to factors other than a simple search for superior performance (Powell and DiMaggio 1991). They distinguish three modalities, any or all of which may be present in a specific case. First, *coercive isomorphism* occurs when pressure to adopt a particular form comes from other organizations which can exercise power over the subject organization. In the world of public administration there are clearly many examples of this. The World Bank or IMF or EU Commission insist on certain types of institutional reform as conditions for receiving assistance; central governments impose certain administrative arrangements on lower tiers of government (an example is Compulsory Competitive Tendering in the UK), and so forth.

Second, *mimetic isomorphism* occurs where, under conditions of significant uncertainty as to what the most appropriate organizational form actually is, the safest strategy appears to be to copy whatever is in fashion with other organizations which are perceived as 'modern' or 'successful'. This kind of 'playing it safe' is likely to be quite common. It may be done in a highly calculative, strategic way but it may also occur almost 'naturally':

when external norms or practices obtain the status of a social fact, organizations may engage in activities that are not so much calculative and self-interested as obvious or proper. (Oliver 1991, p. 148)

Here again one can see public sector examples – direct copying of the UK Next Steps agencies programme in both The Netherlands and the USA (and now, apparently, Japan – see James 1999). With luck, this kind of imitation will have tangible benefits: it will help increase the external legitimacy of the reforming organization, and may thus help it to secure more resources from its stakeholders. If there is no hard and fast information as to the relationship between a given organizational form and efficiency (as we have argued there usually isn't) then it may be perfectly rational just to imitate high status organizations or authorities, whether at home or abroad. This

is an obvious way of handling the ambiguity and uncertainty which pervades much high-level administrative decision making (Noordegraaf 2000).

Third, Powell and DiMaggio mention *normative isomorphism*. This type of copying results from processes of professionalization and institutionalization. Professional staff undergo relatively uniform training, and then carry the ideas they have picked up out to the many different organizations which employ them. Heavily professionalized organizations such as hospitals and schools not infrequently look towards some national professional institute for guidance as to how to organize for specific types of contingency or client. Further, it is noticeable that, over the last 20 years, management itself has in some important senses become more 'professional'. MBAs have flourished. Management magazines and journals have proliferated. The institutionalized teaching of academic public administration has, in both the UK and the USA, tended to move from a base in social science faculties to a base in business schools. In many countries it is now *de rigueur* for senior or aspiring-to-be-senior civil servants to attend management training courses. This rapid growth of courses and centres and qualifications and publications lubricates the flow of talk and enables the process of norm-form to proceed with greater reach and force.

Thus Powell and DiMaggio's model of isomorphism identifies a set of processes which could explain convergence of a kind that would not necessarily have anything directly to do with global economic pressures or with warranted gains in efficiency or effectiveness. Copying the language (and often the forms) of reforms elsewhere could be explained in terms of pressure from 'on high', coping with uncertainty, seeking 'appropriate' organizational responses within a given organizational field and the professionalization of management, without any need to invoke a monolithic 'new global economy'. Admittedly, the theory of institutional isomorphism has also been vigorously attacked by functionalists (e.g. Donaldson 1995). Interestingly, however, even this – probably the most authoritative and hostile critique – comes to the conclusion that 'the proposition which is supported [by the five studies under review] is that organizations are influenced in their internal structure by the state' (Donaldson 1995, p. 102).

RESCUING CONVERGENCE? THIRD STEP: WORDS AND THINGS

The third step is to draw a stronger distinction than hitherto between convergence *talk*, convergence *decisions* and convergence *action*. Brunsson's book, *The Organisation of Hypocrisy*, is devoted to demonstrating that each category is important in its own right, and requires separate analysis. Furthermore, the fact that divergences frequently develop between talk, decisions and actions should not be regarded in a purely negative way – as simply 'inconsistency' or 'implementation failure'. The looseness of fit between these three categories may actually be beneficial. This is especially the case for political organizations, which have to address virtually insoluble problems in contexts where inconsistent norms are applied by mutu-

ally antagonistic 'stakeholders' and uncertainty and ambiguity are the order of the day. Most of the 'production' of ministerial departments consists of talk, statements and decisions, rather than concrete goods, services or, more atomistically, actions. As Brunsson states:

Talk, decisions and products are mutually independent instruments used by the political organization in winning legitimacy and support from the environment. (Brunsson 1989, p. 27)

The number of studies of reform *talk*, as distinct from decisions or actions, is as yet limited (Hood and Jackson 1991; Hood 1998; Summa 1989, 1992). These studies are, however, broadly supportive of Brunsson's contention that, so to speak, 'talk has a life of its own'. In the case of NPM that certainly seems to be true (Pollitt 1998). The public record bristles with ambitious and visionary ministerial rhetoric. Nor is this in any way a static phenomenon. Different themes compete *within* the NPM discourse, and different key concepts come to the fore during different periods. In the UK, for example, the advent of the Labour government of 1997 was accompanied by a shift towards the themes of modernization, innovation and partnership, and away from notions of competition and market testing (see Clarke, Gerwitz and McLaughlin 2000).

Talk has a life of its own in another sense too. It is a means of winning legitimacy and support, but not only that. It creates an agenda of issues and a specialist vocabulary for describing them. It facilitates the formation of 'in groups' (who share the agenda and vocabulary) and 'out groups' (who don't). Within the relevant 'community of discourse', deployment of the current concepts and 'buzzwords' confirm the speaker as 'knowing' and 'on message'. By the same token, discussants who raise other issues or use an older vocabulary may be disempowered – regarded by those 'in the know' as embarrassingly 'old-fashioned', underinformed or even subversive. In questions of management reform, as elsewhere: '“Truth” is to be understood as a system of ordered procedures for the production, regulation, distribution, circulation and operation of statements' (Foucault 1980, p. 133).

In the ocean of talk, decisions sometimes bob to the surface. Decisions are closer to action than talk, but it would be naïve to assume that the connection was always a tight one. For example, in 1996, the EU Commission formally decided that every new programme would be subject to *ex ante* evaluation, and that those evaluations would normally be placed in the public domain. Two and a half years later the Commission's own survey of evaluation work showed that very few *ex ante* evaluations had actually been carried out (Pollitt 1999). A second example concerns the programme of administrative reform, in Norway, in which an NPM-flavoured set of policies were announced during the 1980s and 1990s, but were then 'adapted to the established culture, procedures and working routines' – in short they were strongly 'edited' (Christensen and Laegreid 1998, p. 469).

Thirdly, in 1998, the British Government issued a public expenditure White Paper in which it announced that: 'The Government will deliver a world class education service, offering opportunity for all to reach their full potential ...' (Chancellor of the Exchequer 1998, p. 42).

One can imagine the difficulties that would be faced by any future researcher who, at the end of the government's term, attempted to establish whether the actions of education authorities had conformed to this exaggerated rhetoric. Yet decisions can be useful, whether or not they are subsequently implemented in practice. They declare the intention of the organization concerned. They implicitly or explicitly allocate responsibility. They warm the hearts of supporters and ignite the hostility of oppositions. They show politicians and mandarins as dynamic and (literally) 'decisive'. And, of course, they are used to guide action, if and when that follows.

Eventually, 'actions' may or may not take place. No doubt in many instances actions closely accord with preceding decisions, but in other cases there are startling divergences from what onlookers had originally supposed the decision to intend. For example, the UK Department of Social Security tried hard to implement its much-vaunted 'Operational Strategy' during the 1980s and early 1990s, but the projected savings and service improvements failed to materialize (National Audit Office 1999, p. 25). Or again, the decisions, by various national governments during the 1990s to introduce citizens' charters, led to very different developments in Belgium, France, Italy and the UK, and in several of these cases the actual impacts seem to have faded rather fast. More generally, we have already noted the conclusion of a number of comparativist scholars that, even if there are some common stimuli for change, 'What is different is how political systems have interpreted the ideas and responded to the demands and/or opportunities for introducing administrative change' (Peters 1997, p. 266).

Finally, it could be argued that Brunsson's threefold distinctions between talk, decisions and actions would benefit from the addition of a fourth category, namely, 'results'. In public administration, even determined implementation (actions) does not necessarily lead to uniform or expected results. Similar (convergent) actions, taken in different contexts, may produce quite divergent outcomes (Pawson and Tilley 1997). This point is only mentioned *en passant* here, but really deserves a paper to itself.

RESCUING CONVERGENCE? FOURTH STEP: WHO BENEFITS?

In some quarters there has been a tendency to interpret the Powell and DiMaggio model as primarily – or even exclusively – a matter of cognition and ritual – symbolism, ceremony and legitimacy (e.g. Donaldson, 1995). This divorces the discussion from the traditional political science questions of power and resources. We argue that this is too narrow an interpretation, and does not seem to accord with the intentions of the authors themselves (Mizruchi and Fein 1999; Oliver 1991). Particularly for coercive isomorphism, but also for the other two types, questions of power, status and

resources are clearly relevant. Our final step is therefore to connect the earlier analysis of convergence processes with a preliminary overview of power and resources. We can do this by asking who seems to have benefited from the propagation of the convergence story? Clearly, in an article of this length and character, we cannot systematically document fully-fledged answers to these questions. We can, however, set up a plausible model and illustrate it with relevant examples.

Let us take, in order, ministers, senior civil servants, consultants and academics. In most countries some combination of these are the main actors involved in the discussion, formulation and implementation of administrative reform programmes. *Ministers* are in a difficult position. They, more than any of the others, feel the need to be seen to be doing something. To a considerable extent, their careers depend on this. On the other hand, few ministers are knowledgeable about the design of administrative organizations, and few have the time (or inclination) to acquire a detailed knowledge of all the relevant considerations. They seldom see themselves as playing 'chief executive' types of role (Hennessy 1989, p. 608; Marsh *et al.*, 2000). They must rely, therefore, on advice from others. In such a context, the advantages of having one, fairly simple, but allegedly global model (NPM) are considerable. It enables ministers to portray themselves as modernizers yet also to defend themselves against critics by pointing out that the changes, far from being idiosyncratic, are part of an 'inevitable', international trend. 'By structuring itself along lines that are generally regarded as reasonable, fair, efficient, rational, modern and so on, an organization can win the understanding of its environment' (Brunsson 1989, p. 4).

Senior civil servants may be much more knowledgeable about the details of the government machine, but they also face a problem. There are no commonly agreed, scientifically validated models for well-functioning ministries, agencies and quangos (Pollitt and Bouckaert 2000, Chapter 8). Redesigning complex organizations is not like assembling D-I-Y furniture – just follow the diagram. It is full of complexities, uncertainties and local considerations. In the public sector even the 'bottom line' indicators of profits and growth are often absent. Yet mandarins are under fierce time pressures, just like their political bosses. They live from day to day, trying to make sense of each new and urgent issue as it arises (Noordegraaf 2000). The attractions of an off-the-shelf set of reforms are obvious, especially if this package is legitimated by other governments, important international institutions, and dynamic management consultancies (Halligan 1996). The NPM 'package' meets these criteria, and also has a further important advantage. For the most part it is pitched at a fairly high level of generality: decentralize, get close to the customer, separate purchase and provision, and so on. This means that there is considerable room inside these broad generalizations for civil servants to adapt what actually happens to fit with the local circumstances which they know so well. They can take the headline con-

cepts and 'tune' their ambiguities to local norms and interests (March and Olsen 1976).

Under these circumstances, testing carefully for results may not be the priority: as a civil servant in one study of policy borrowing by UK ministers and civil servants from the USA put it:

Was there any effort to determine whether [the policy] was being effective in the States? No, not really. That wasn't what the game was; the game was to import into Britain what civil servants and the secretary of state thought was a good idea. (minister's private secretary, quoted in Wolman 1992, p. 36)

It is widely recognized that *management consultants* have been important players in the reforms in a number of countries, including the UK, the USA, New Zealand, The Netherlands and, a surprise perhaps, Switzerland. Their job is to sell advice and, given the historical development of management consultancy, many of their ideas came originally from private sector contexts. As was remarked at the time of its publication, Osborne and Gaebler's influential book was in some respects an adaptation for governments of the earlier private sector bestseller, *In search of excellence* (Peters and Waterman 1982). Management consultancies provide the packaged ideas for which ministers and senior civil servants have such a strong appetite. They have also provided employment for a number of ex-senior civil servants, who can contribute their 'local knowledge' and networks of contacts inside the government machine (for a detailed description of how this happened in The Netherlands, see Kickert 2000). Their role helps to explain how mimetic isomorphism actually comes about:

Large organisations choose from a relatively small set of major consulting firms, which, like Johnny Appleseeds, spread a few organizational models throughout the land. (Powell and DiMaggio 1991, p. 70)

Academics play a more important role in some countries (Finland, Germany, The Netherlands) than in others (France, New Zealand), though they rarely have a decisive influence. They benefit from the existence of common models of reform – in at least two rather contradictory ways. First, the existence of the NPM provides a clear stimulus to academic production and a focus for academic debates – in short, for professional talk (see, for example, Derlien 1998; Guyomarch 1999; Kettl 2000; Pollitt 2000). Second, familiarity with the elements of NPM – not hugely demanding in intellectual terms – may offer a passport into consultancy. Many public administration academics take part in advising governments, either by being hired by management consultancies, or by working for organizations such as the OECD Public Management Service (PUMA) or the World Bank, or, sometimes, by acting as freelance consultants themselves. Such activities commonly pay a lot better than standard academic work, and they usually offer opportunities to piggy-back research or up-date teaching.

One interesting feature of the interaction between these groups of reformers is that, for most of them, the early stages of a reform are likely to be more salient than whether it actually works out in the long run. In Brunsson's terms, talk and decisions loom larger than action. Political kudos comes more from launching reforms than from trying to claim credit for their benefits three or four or five years later. Senior civil servants may still be around, but probably not in exactly the same role. Anyway, as the doctrines of NPM itself make clear, 'implementation' or 'execution' is someone else's responsibility – it is 'operations,' not 'policy' or 'strategy'. The reputation of the management consultancy rests on a successful interaction, usually of limited duration, in which solutions are found which are acceptable to the client. Later difficulties can be put down to 'poor implementation'. The academics are by their nature likely to be more interested in talk and conceptualization than in the long drawn-out, often boring, details of administrative action. Talk and decisions are also much cheaper and easier to research than action (and much more so than results) – just reach for the Internet.

In sum, many benefits flow to many players from a situation in which there is a dominant, but loosely-specified set of reform ideas which apparently can be applied to a very wide range of public sector contexts. Once such a situation has grown up it is hard for a single, unorthodox player to disturb it. It is an administrative equivalent of 'normal science' – a paradigm on which reputations, careers and profits can be built. Of course, the exact contents of the package shift over time – TQM out, re-engineering in, and so on – but the basic pattern of one set of fairly general prescriptions serves a wide range of interests. It is a system which is only marginally vulnerable to bad results because 'final outcomes' (results) usually don't arrive until most of the major players have moved on, and even then the attribution of outcomes to causes is likely to be ambiguous and open to dispute (Pollitt 2000).

CONCLUSION: UNPACKING CONVERGENCE

With the help of this kind of analysis, we can somewhat refine our discussion of the phenomenon of convergence. We can do this with respect to two main dimensions, first, the extent of convergence and, second, the reasons and motives for it.

With regard to *extent* (and to oversimplify slightly), we can think in terms of a kind of Venn diagram, with four overlapping but not coterminous zones. First, there is Type A convergence, where reforms are put into action and this produces a convergence of results or outcomes (for example, the productivity of a particular type of function improves in every jurisdiction where a specified management technique has been applied to it). This is the 'purest', or highest form of convergence. Here everything lines up – talk, decisions, actions and results.

Second, there is type B convergence, where, although results may not

converge (or may simply not yet be discernable) actual practices (actions) within and between public sector organizations become more similar. For example, many types of public sector organization now make at least some use of performance-related pay, though whether it produces more highly-motivated staff is open to question.

Third, there is Type C convergence, where similar external labels or titles are used for reforms, although the substantive content of these reforms may vary considerably. The very different 'citizens' charters' in the UK, France, Belgium, Portugal and Italy could be said to be an example of this type. The use of 'evaluation' is a second example – not only does the actual form and method of evaluation vary enormously, but it is a frequent research finding that the recommendations of evaluations are largely ignored by the very organizations that have commissioned them (see, for example, Patton 1997, pp. 7–10; Pollitt 1999; Weiss 1988). The use of such labels ('charter', 'evaluation') will (in Brunsson's terms) involve important decisions being taken, but, apart from the sign on the door or the title of the report, convergence of actual practice may be limited or absent.

Type D convergence is even less concrete – it is confined to the world of talk. With this form of convergence, conferences are held, reports are commissioned and books are written – all to publicize specific types of reform. However, few real decisions – and even fewer concrete actions – follow from these 'talking shops'. In the world of public administration one might say that the talk about devices such as ZBB or, more recently, Business Process Re-engineering (BPR) far outran the ability or willingness of most public sector organizations to put them into practice (General Accounting Office 1997; Packwood, Pollitt and Roberts 1998). Decisions were taken, and some practices were changed, but talk was the dominant element.

Fashionable labels are thus frequently borrowed – because of their legitimating power – but are then stuck onto a range of projects, some of whose contents are far more limited and conventional than the founding texts envisaged. [For public sector applications of TQM, see Joss and Kogan 1995; more recently, we have the example of the UK government, anxious to meet its own targets for moving into the 'Information Age', defining telephone calls as 'electronic transactions'.] The motive may be simple – if an activity is presented as 'evaluation' or 're-engineering' or 'benchmarking' then it may become eligible for earmarked financial support, or for increased staffing or some other form of recognition. Forms of tangible reward for being 'in fashion' are commonplace. Thus talk, decisions and actions progressively diverge, one from the other.

In these terms, the argument between the followers of Osborne and Gaebler and those of the sceptical comparativists may be redescribed as follows: the 'Reinventing Government' school claim that Type B (or even the pure type A) convergence is widespread. However, the sceptics say that much of the convergence is actually of types C and D. Thus defined, the

controversy is in principle open to empirical testing, although it will be a long job to design and carry out assessments of convergence of types A and/or B.

It should be noted here that *this paper does not, and could not, take any final position on the precise relative extent of the four types of convergence*. One can, however, say that the preliminary evidence points towards convergence of types C and D reaching well beyond Type B (see comparativist studies cited earlier), although exactly how much type B convergence actually exists has yet to be established. It is also possible that real convergence of practice (B) may take place without a lot of external talk and discussion – that is, zones B, C and D may overlap but by no means entirely contain each other. Finally, type A (convergence of results) is very hard to document. This author knows of no entirely convincing studies to indicate international convergence of the *outcomes* of public management reform.

With regard to *reasons and motives*, we can see the theories of Powell, DiMaggio and Brunsson as making at least two contributions. First, they bring agents back in – but without throwing structures and constraints out. Organizational change is no longer mainly a matter of either global or functional imperatives. It becomes more often a process of selective copying, in which the perceptions and purposes of the reformer reassume a distinctive significance. Functional efficiency is not abandoned as a motive, or as a threshold, but neither is it accorded automatic explanatory dominance. Second, institutionalist theories enrich our model of the agent's cognition. Now agents of reform are concerned not merely to maximize efficiency but also to keep up appearances, to convince stakeholders, to be seen to be doing the right thing. Expressing the right attitudes, using the current buzzwords, showing that one is following others who are perceived as having been successful – all these things may have pay-offs of their own. While efficiency may certainly be one of the values which it is strived to realize, it is not the only one, and, in any case, 'efficiency' is itself socially and linguistically constructed, varying somewhat from one context and one language to another.

In short, therefore, the idea of convergence casts its shadow much further than the zone of gold standard, type A common raising of standards, or even B, adoption of common practices. Examples of type C and type D convergence demonstrate how talk and decisions can bring real rewards to powerful actors, even when the subsequent actions fail to materialize or travel down unanticipated roads. Thus, 'real' convergence *may* be more story than fact, but, if so, it is myth that will support careers, enhance images and boost the incomes of those who purvey its signs and symbols. Brunsson can have the last word:

[W]e cannot simply do without all our myths about intentions, or causes and effects; many of them have important functions, although telling the truth is not one of these. (Brunsson 1989, p. 232)

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REVIEWS

NEW PERSPECTIVES ON ACCOUNTABILITY

NEIL MCGARVEY

Hood, C., C. Scott, O. Jones, G. Jones and T. Travers. (1999) *Regulation inside government* (Oxford: Oxford University Press).

Pierre, J. (ed.) (2000) *Debating governance* (Oxford: Oxford University Press).

Pyper, R. and L. Robins (eds) (2000) *United Kingdom governance* (Basingstoke: Palgrave).

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The question of how accountability in government is best conceptualized is one that is seldom addressed specifically in the public administration literature. However, wider concepts and approaches to public administration always inevitably have something to say about the subject. This article reviews recent books that, while not specifically focused on questions of accountability, have something to contribute.

These five books highlight the problem of identifying lines of accountability in modern day government. Like much of the recent literature on modern day government they emphasize that traditional models of thinking about accountability relationships in government bureaucracies are too simplistic. Today it is accepted that the constitutional position – accountability in UK public administration flows upward through civil service and officer hierarchies to elected politicians – is a myth. One could argue it always was, separating as it did policy and administration. The legal underpinning of public administration has become more complex as the traditional unified administrative culture and ethos of the public sector has been diluted.

In the postwar period this model of accountability was challenged by the

rise and spread of public sector professionalism. The new (largely welfare related) professionals challenged the traditional hierarchical conceptions of authority in government – professionalism being based on peer judgements that reflected more lateral horizontal lines of judgement. However, in recent years, like traditional notions of accountability, professional codes have been much criticized. Professionals were criticized for being paternalistic with their monopolistic basis, breeding inefficiencies across the public sector.

The spread of consumerism and performance management has challenged professional authority in many areas of the public sector in the 1980s and 1990s. Aided and abetted by marketization, lines of accountability were redrawn with empowerment of both managers and customers, a key principle underlying many reforms (for example, compulsory competitive tendering, privatization, deregulation, opting out, devolved management, citizens charters, agencification). The emphasis was on transparency, with public sector managers setting out clear statements of goals and objectives on which they could be judged by users of public services. More effective management, choice and empowerment would deliver more responsive and accountable public services. Performance management techniques replaced professionalism as the solution to accountability in public administration. The focus of accountability shifted from process to output, with greater attention being paid to the achievement of results and the responsibility of managers to achieve them. Purchaser/provider splits and new contractual relations were designed to clarify accountability through making costs transparent with explicit standards and measures of performance being set down.

In the 1980s and 1990s the disaggregation, decentralization and marketization of the public sector in the UK has led to a re-evaluation of traditional administrative, legal, professional and managerial conceptions of accountability. The story of accountability in public administration is being re-told by two new strands of literature. Paradoxically, each narrates a different story of new trends in accountability. On the one hand, governance perspectives emphasize increasingly complex and confusing lines of accountability (Stoker 1999, 2000; Rhodes 2000) while regulatory perspectives call to attention the new tools of accountability the government has used (Hood 1999).

THE GOVERNANCE PERSPECTIVE

Governance perspectives on accountability shift the focus to the wider environment of government emphasizing that modern day governance occurs within a maze of bureaucracy and networks (for an interesting eclectic mix of writings on the subject see Pierre 2000). This perspective has been used to understand government changes at both central (see Rhodes 2000) and local (see Stoker 1999, 2000) level in the UK (see also Pyper and Robins 2000). It is closely linked to the 'hollowing out of the state' thesis that sug-

gests a loss of capacity on the part of government to control and manage the public sector with 'a growing trend towards multi-organisational forms of policy implementation' (Gray 2000, p. 284). Public administration now involves a complex set of institutions and actors that are drawn from but also beyond government. Pierre and Stoker argue, 'the essence of governance is its focus on governing mechanisms which do not rest on recourse to the authority and sanctions of government' (2000, p. 32).

Various contributors to Stoker 1999 and 2000 highlight the changing nature of accountability in new structures of governance. Here are John and Cole, for instance:

the more open character of governance poses challenges for democratic institutions. The new way of doing business undermines the existing patterns of chain and command and transfers decision-making into interpersonal relationships and into semi-institutionalised politics of partnerships. (2000, p. 87)

This, according to Jessop, creates a dilemma of accountability versus efficiency – there are problems attributing responsibility for decisions and attempts to do so can interfere with the efficient pursuit of joint goals within these networks (2000, p. 22). Those involved in such networks can establish monopolies of expertise in particular policy areas. Heald and Geaughan (1999) highlight how private companies involved in the Private Finance Initiative often claim commercial confidentiality, something which undermines public accountability. In the same book, Reid (1999) notes how the requirements for public managers to develop 'new entrepreneurial and intrapreneurial skills' is challenging traditional public sector management conventions. Benyon and Edwards (1999), in their research into the community governance of crime control, highlight how the focus of partnerships established in this policy area is in the main upwards as they have struggled to develop bottom-down modes of accountability.

All of these contributions emphasizes that public services are changing in scale, character, scope and complexity. Governance in the twenty-first century stretches far beyond the bureaucratic apparatus of government. It incorporates a complex network with the traditional civil service supplanted by executive agencies, non-departmental public bodies, health authorities, local authorities, voluntary organizations, the private sector, partnerships, networks, taskforces, working groups, joint commissions, advisory groups and the like. In such a jungle the possibility of drawing clear lines and outlining underlying principles of public accountability becomes at worst impossible and at best, futile.

The governance literature tends to highlight the increasing complexity of accountability with a blurring of the distinction between state and civil society. In the 'differentiated polity' characterized by functional and institutional specialization and the fragmentation of politics the government confronts self-steering inter-organizational networks which confound mechanisms of demo-

cratic accountability (Rhodes 2000). The very nature of networks means that the lines of accountability become blurred. In such structures of governance there are inevitable accountability gaps and vacuums.

This, according to Hirst (2000), creates the need for a rethinking of the types of processes of political control and democratic accountability these new structures of governance require. This is true not only at the national, but also international level – it has created an ‘accountability deficit’ in supranational structures that has yet to be addressed (Rosenau 2000).

THE REGULATORY PERSPECTIVE

While the governance perspective raises questions concerning accountability, the regulatory perspective emphasizes new regulatory devices the government has used to ensure accountability. In essence these new devices can be seen as the centre’s response to the loss of control it has suffered as new modes of governance have emerged across the public sector. As the interventionist state has declined a new regulatory state has replaced it. There is ‘more emphasis on the use of authority, rules and standard setting, particularly displacing an earlier emphasis on public ownership, public subsidies and directly provided services’ (Hood *et al.* 1999, p. 3).

This perspective notes the shift away from the tradition of ‘high-trust’ towards a ‘low trust’ arm’s length style relations in government (Hood 1994, p. 131). The UK government delivers few public services directly to the people, ‘but regulates other bodies responsible for provision’ (Hood *et al.* 1999, pp. 93–4).

This moves the focus of accountability away from monolithic public bureaucracies with hierarchical line-management relationships, to the regulatory oversight arrangements that exist. This has resulted in a whole new lexicon of accountability documentation for public agencies, for example, corporate/strategic plans, public service agreements, values, mission statements, business plans, annual accounts and reports, performance plans, performance indicators, strategic plans, evaluation reports, and so on. As Hood in earlier work has noted, the accountability metaphor underlying this type of change is,

that of a principal dealing with a potentially untrustworthy agent, aiming to spell out goals with maximum precision and setting up monitoring and incentive schemes to induce the agent to follow the principal’s wishes. (1994, pp. 131–2)

Hood *et al.* (1999) identify numerous types of regulator inside government such as public auditors, professional inspectorates and ombudsmen. However, in contrast to the governance literature, the regulation perspective highlights how the moving of government bodies out-with conventional frameworks of ministerial accountability need not equate with diminished control or accountability. Indeed it may enhance an increased sense of responsibility in semi-autonomous agencies. Moreover, these new

mechanisms are designed to shed some light on the 'bureaucratic Bermuda Triangle' in which accountability had disappeared (Treasury and Civil Service Committee 1994 para. 165 cited in Butcher 2000, p. 67).

The regulatory perspective, like the traditional one, tends to emphasize upward accountability – it privileges the interests of elite policymakers and funding bodies. However, in doing so it may overemphasize the degree to which regulatory documentation such as audit reports and strategic plans can deliver 'accountable government' on their own. In reality, the documentation associated with regulation forms the basis for informal discussion, negotiation and judgement (i.e. politics) (Midwinter and McGarvey 2001). Government is always in the final analysis a political process, not a managerial one.

Increasing regulatory capacity in government ties in quite neatly with the needs of democracy – elected government should retain the capacity to steer the government machine in the appropriate direction as well as ensuring public agencies are accountable in some way to elected politicians. Regulatory activity allows the government to establish mechanisms of accountability to supplant more traditional ones. More emphasis is being placed on the accountability requirements of public bodies. Regulation is also consistent with notions of ministerial accountability. It is the convention of minister responsibility which ultimately allows ministerial departments to exercise control over the public sector. This convention, a key part of the Westminster model, retains the imagery of central government ministers being at the apex of the democratic accountability chain and in control. It is consistent with the discourse of accountability associated with regulation, which is very upward in focus. It places central government bodies (rather than the public or consumers) as the key bodies to which public bodies should give account. It establishes a framework of management reporting and controls. It is a discourse of accountability, which downplays democracy and pluralism in favour of oversight and control.

CONCLUSION

This analysis has highlighted new governance and regulatory perspectives on accountability in public administration. These new perspectives have heuristic qualities in that they ask different questions and generate alternative insights on accountability. They challenge the hegemony of traditional and managerial perspectives. There is no doubt that our implicit conceptual assumptions will influence how we think about and study accountability. By examining accountability through the new conceptual lenses of governance and regulation we can gain a greater understanding of recent public sector reform and how new modes of accountability have supplanted and challenged existing ones. Each points to alternative focuses of accountability beyond the traditional channels.

The apparent simplicity of the political and administrative geography associated with the public bureaucracy state is gone forever. Our traditional

notions of public accountability were shaped within this framework. Today, however, the map of government is much more complex and uncertain. Drawing a reasonably complete and accurate map of accountability in the public sector would be virtually impossible.

The regulatory perspective suggests that accountability may be improving between public organizations, while the governance frame of reference emphasizes the increased complexity in public service delivery. Each acknowledges that the new governing arrangements erode traditional Weberian notions of accountability in the public sector with institutional complexity obscuring who is accountable to whom for what. By default (or rather neglect), each raises question marks as regards accountability to the wider public.

The irony is that as the public sector becomes ever more complex the normative appeal of the old codes of accountability increases. Traditional legalistic and constitutional notions of public accountability still retain significant appeal for politicians, officials, the media and the public. We all have a normative preference in favour of the ballot box and other democratic mechanisms working effectively to ensure accountability in public administration.

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WELFARE AND CULTURE IN EUROPE: TOWARDS A NEW PARADIGM IN SOCIAL POLICY

Prue Chamberlayne, Andrew Cooper, Richard Freeman and Michael Rustin (eds)

Jessica Kingsley, 1999, 296 pp. £18.95 (pb)

Just as the postmodern turn within welfare state analyses came very late and still occupies a clear minority position, the cultural turn has only just begun and is marginalized within mainstream welfare literature. The dominating institutionalist perspective has, however been challenged recently, and this book by Chamberlayne *et al* is one such challenge. It tries to demonstrate why welfare research in and on Europe should 'take culture seriously' Freeman and Rustin write in the introduction. 'The argument is that the solidarity expressed in welfare requires some cultural logic, which is regularly found in nationhood. And when the legitimacy of the nation as an organizing principle of social life breaks down, welfare must be re-thought too' (pp. 14–15)

Chapter 1 by Walter Lorenz is entitled 'Social work and cultural politics: the paradox of German social pedagogy'. German development is contrasted with the British, and it is argued that in the latter context 'culture had a stronger and a more substantial function' (p. 31) than in the former. The author concludes that 'the core problem is the inherent commitment of the pedagogical project to the national cause which ultimately seeks to suspend diversity in one authoritative public norm' (p. 40). The book includes a chapter by Martin Peterson, 'The traumatic dismantling of a model welfare state: the Swedish model in global culture'. It postulates the thesis presented in the title, although without documentation. The very few references cited, furthermore, contradict the thesis of dismantling, rather arguing the opposite, namely that the Swedish model during the time of crisis in the early and mid-1990s proved its solidity. Steven Trevillion, in his contribution, asks the question 'is there a particular culture associated with globalization which all social workers could be said to share?' The answer is a positive one, indicating a new role for social work under post-fordist conditions where traditional terms are replaced by more 'complex and open-ended networks of cooperation and collaboration' (p. 76). John Baldock's chapter is entitled 'Social services and contrary cultures'. His starting point is a self-critical reflection on research done on how the frail elderly population deal with receiving care after suffering a stroke. The result of (re)examination of the (unintended) findings was formulation of the following thesis: 'that the nature of many people's experience is one that is open and unscripted. If we are right, then we would suggest that more established research methods, for example surveys in which large numbers of people are asked large numbers of questions, may not be as meaningful as they appear' (p. 88). Andrew Cooper's chapter on 'Anxiety and child protection work in two national systems' also reports unintended consequences of a study, in this case, of systems of child protection in England and France: 'One of the unanticipated outcomes of the project . . . was the way in which participants found themselves taking up a "meta" position on their own system by virtue of increased understanding of practice realities within an alternative one' (p. 102). The next chapter also offers a comparison of France and England, this is: 'Parent's experiences of child welfare in England and France: getting help and having rights' by Rachael Hetherington. She writes that the ultimate goal of this research was to give information to the participants about difference that could lead them to develop new ideas, opinions or understandings of their own situation. The differences are explained by reference to the different cultures of rights prevailing in France and England respectively.

Elisabet Tejero and Laura Torrabadella's 'Family relationships in Democratic Spain: cultural change from a biographical perspective' builds on a biographical methodology. Through the story of Carolina, we become acquainted with the development of welfare and family in Spain over the last 50 years. The result is a very nice piece of welfare analysis where the told story and the lived life are supplemented with basic information of changes in the legal regulation of the family and economic and political life in Spain since the 1950s. An element often neglected in welfare analyses is the role of civil society. The above chapter on the Spanish family is one exception, another is a chapter on the informal sector by Prue Chamberlayne, entitled 'Cultural analysis of the informal sector'. It is a study of caring in the informal sector in Bremen, Leipzig and London. One of the conclusions reached, which qualitative

studies are good at revealing, is that 'there is a striking contradiction . . . between formal ideologies and every day practices' (p. 166) Michael Hornsby-Smith has contributed a chapter on 'The catholic church and social policy in Europe' He identifies a number of differences between protestant and catholic nations in Europe with respect to organization of welfare provision, but is actually not able to explain these differences by reference to religion Hence nothing new is revealed here.

In a comparison of northern and southern Italy, Anotella Spanó writes on 'Structural and cultural dimensions of poverty in Italy the implications for social policy' Again, the biographical method is applied by following the life of Vincenzo Spanó comes up with a strong analysis and a viable conclusion concerning policy recommendation 'A realistic policy must take into account the cultural aspects of poverty in the South. The feature of "normalty" that seems to characterize the experience of poverty in the South represents a particularly important issue for social policy' (p. 209).

The third part of the book contains three chapters dealing with 'theorizing welfare as culture' Samantha Ashenden writes on Habermas, Caroline Knowles on Foucault and Lefebvre, and Michael Rustin writes on contribution of the psychoanalytic tradition. Each of these chapters in their own right give a good input to 'theorizing welfare as culture'; yet, they also demonstrate the very many meanings affiliated with the concept of culture.

In the conclusive chapter the editors sum up what is presented in this book as a 'new paradigm in social policy'. Their interpretation of what the cultural turn should mean for comparative welfare analyses focus on methodological issues. What essentially unites all the contributions is not so much their reference to culture, since the term is understood rather differently throughout the book; it is rather the focus on people instead of institutions, the bottom-up approach being applied, utilizing qualitative methodology such as life stories, observation and in-depth interviews. Should we conclude, then, that the mainstream social administration approach has been made obsolete? The editors do not go that far, rather, they see it as an important supplement. This book should be welcomed as an important corrective or alternative to mainstream social policy analyses, yet the content seems too diverse to warrant the label of a new paradigm

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TRUST IN GOVERNMENT. ETHICS MEASURES IN OECD COUNTRIES

OECD Report

OECD 2000, 332pp. £41.00

The report 'Trust in government – ethics measures in OECD countries' is introduced to the reader as falling within the mission of the OECD to promote good governance. The aim of the report is, in short, to provide an overview of 'ethics' measures of all the 29 OECD countries The hope is that the information in the report will facilitate mutual learning and by doing so support the policy-makers in their construction of strategies in ethics.

The report provides the reader with a database of what is defined as five integrity measures in the 29 OECD member countries. Integrity is defined as: (1) that the public employees' behaviour is in line with the purpose of the public organization he or she works within, (2) that public services are reliable; (3) that the services is provided on the basis of impartial legality and justice, (4) that the public resources are used effectively, efficiently and properly; and (5) that there is transparency in the decision-making process In addition, there is a wish to have a mutual learning between both OECD- and non-OECD membership countries on the abatement of corruption

The report is divided into two parts. The first report is analytical with the aim of supporting the strategy designing process in the member countries. The second part consists of country reports These are based on information on country-specific actions on regulations, institutions and procedures The country parts are also based on an analysis of the results of the survey questionnaire.

Based on the survey, it is concluded that all of the OECD countries formulate a set of core values for their public administration in relation to their everyday praxis. Following this it is concluded that the more traditional values such as impartiality, legality and integrity still are the core values for public administration. It may not surprise the reader that these values have been complemented by the 'new' (public management) values efficiency and transparency. Furthermore, there is a tendency in the member countries to use the legal framework to underline core values and code of conduct for public administrators. A rising concern for OECD countries is the special attention needed when officials are in positions considered to be in the danger zone of corruption. Again the survey shows that the legal framework is set into action either by strengthening the existing legal measures or by establishing and implementing a legal framework for internal control. And at the same time a carrot in the form of human resources management initiatives is used when wanting to implement an ethical environment. The stick and the carrot are still in play. The report itself concludes in relation to integrity measures: 'The survey showed that successful integrity measures consist of a combination of actions that are consistent with each other and take into account the wider public service environment' (p. 17).

The traditional core values of the public administration: impartiality, legality and integrity are combined with the 'new' steering agendas: efficiency and transparency, and these are supplemented with a more extensive use of the legal framework. Finally, the steering agendas mentioned above are spiced with HMR (human resource management). The conclusion puts emphasis on consistency, which seems paradoxical as the steering agendas point in very different directions. In terms of consistency, the title of the report, 'Trust in government', seems marginal to the theme of the report.

As a reader, being, I would say, more than normally interested in trust, and knowledgeable of the complexity of the term, I would expect some reflections on the term trust, or at least some clarification on the view and understanding OECD has regarding the term. Then, reading a bit further, I discover that this report is not about trust, it is about integrity, and about ensuring and developing means of integrity. Integrity is an important subject for OECD to focus on – why hide the fact by the use of such a title?

It adds to my confusion that it is not stated *who* wrote the report on integrity? What does this say about the integrity in and outside of OECD, and about the highly ranked value *transparency*, as it is impossible for the reader to know who the writer or the writers are.

Turning to a more positive perspective, I see it as a healthy sign that the OECD is concerned with integrity as a basic component of good governance. It is a worthwhile enterprise to develop these kinds of projects or missions, which aim at a mutual learning process across countries. This is especially so within a very precarious organizational value field which concerns the integrity of the public administrator as one very important base for how our democratic system works.

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CREATING ENVIRONMENTAL POLICY IN THE EUROPEAN UNION

Anthony R. Zito

Palgrave, 2000, 225pp. £52.00 (hb)

This book is a contribution towards understanding the formulation and agenda-setting processes of EU environmental policy. The initial question is why the EU, representing a group of such diverse countries, would move to create such a powerful arena of regional governance as that embodied in the present EU environmental legislation and policy. Drawing from three case studies – hazardous wastes, the carbon/energy tax proposal, and transboundary air pollution – the author examines the role of entrepreneurs in different stages of the policy process: defining the policy problem, setting the EU agenda, constructing a solution, maintaining the issue of the agenda and building support for a policy initiative. A comparison is also made between three countries' environmental policy behaviour in all of the three case studies, namely Germany, The Netherlands and Great Britain.

Based on ideas, institutions and interests as analytical categories that are presumed to instigate change, two types of decision-making modes – entrepreneurship versus lowest common denominator bargaining – are explored. The author finds that although the lowest common denominator bargaining mode tends to dominate the EU process (as suggested, for example, by Scharpf, F. 1988. *Public Administration*, pp. 239–78) there are also numerous circumstances in which entrepreneurial decision-making has a chance to promote substantial change. This latter finding builds upon a (neo)functionalist approach that emphasizes the importance of the process and of political actors both inside and outside the policy-making institutions pushing for European supranational policies. This conclusion challenges traditional integration theories, with their focus on the interests and behaviour of larger member states or the influence of supranational institutions such as the Commission. The author brings in theoretical perspectives that discuss the role of institutions, epistemic communities, the power of small states' governments within advocacy coalitions, and – to a lesser extent – principal-agent theory. Hence, the need to focus on all relevant EU actors is emphasized, as is the nature of multi-level governance within the EU. Whatever the size of the country, the EU is compelled to respond to both policy problems and solutions that are raised on the EU agenda. This allows even small states to exert leverage on issues of particular concern.

A further conclusion from the three case studies is that the issues tend to remain on the agenda for a long time. Thus there are ample opportunities for member states to revive the policy initiatives according to pressures from public opinion, the alteration of key agents such as EU Ministers, and the turnover of chairmanship of the EU. However, the study shows that the three cases of environmental issues have been quite differently managed in the policy formulation process. In the first case, the Commission decided upon a ban, starting in 1998, prohibiting EU hazardous wastes. This was achieved through an advocacy coalition consisting of the European Parliament, Greenpeace, Denmark and several other sympathetic states. This entrepreneurial coalition managed to get popular support for the idea of handling waste within member states according to principles of self-sufficiency and proximity, in addition to its being an environmental problem. Nevertheless, how to legally define the term 'hazardous waste' now turns out to be the core problem. The lack of a coherent definition of the term (which is shared among the OECD and UNEP) makes member states' regulatory adherence varied in practice, and one may question whether the EU hazardous waste policy really has any impact. In the second case, the defining of the carbon tax as a fiscal instrument opened the subject up for influence from the more conservative and cautious fiscal officers. Even the European and national level environmental NGOs rarely offered more than general support for the instrument, while remaining suspicious about its efficiency towards lowering CO₂ emissions. So, despite the key political argument for the Commission to use the carbon tax to make the EC a leader at the Rio Summit, this argument had no bearing in the internal EU process within the ECOFIN Council and it has still not been adopted. Finally, the third case of transboundary air pollution – materialized already in the 1988 Large Combustion Plants Directive – gained momentum through an advocacy coalition outside the EU, namely in the UN/ECE and the OECD, that also framed the problem and pushed it onto the EU agenda. Here, the lowest common denominator bargaining mode has shaped the decision-making in the EU Council, and the unanimity voting requirement has strengthened this tendency. Thus, the development of critical loads thinking and effect-oriented air pollution policy has been borne within the LRTAP regime (The Long-Range Transboundary Air Pollution Convention originally adopted in 1979 by the United Nations Economic Commission for Europe with subsequent protocols) rather than within the EU policy process – even if there are discernable spill-over effects.

The case studies present very different stories of formulation and agenda-setting processes of EU environmental policy. Neither of them can be judged a true 'success story' in relation to solving the environmental problems. Hence, the author's initial declaration that EU governance in this field is surprisingly advanced compared with what integration theory would suggest appears to be an overstatement having read the case studies. Problems emerge both in the formulation and agenda-setting processes and in the subsequent interpretation and implementation of the policies, as reiterated by decades of similar implementation studies. The results are further supported in the upcoming Sixth EU Environmental Programme, where new mechanisms to promote implementation are proposed to deal with the failure of making environmental policy more efficient. In this respect, the book provides convincing evidence of the complexity of the policy process, and helps to define the necessary

circumstances (windows of opportunity) for entrepreneurial decision-making. On the one side, I found it sometimes overly detailed and repetitive, and could not quite see how the analysis of the three selected countries' ideas, interests, and institutions really helped to explain policy outcome. On the other hand, however, the comparison between the three case studies of environmental issues and the theoretical discussions around decision-making modes definitely makes the book worthwhile reading for a greater audience of practitioners as well as academics although the high price may possibly restrict its readership.

Katarina Eckerberg
Umeå University, Sweden

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COMMUNICATIONS

ANNUAL REPORT 2000

R.A.W. RHODES, PETER BOGASON, BILL JENKINS AND WALTER KICKERT

The report describes the flow of manuscripts and the contents of the journal before briefly surveying each section of the journal. It ends with a résumé of changes during the year and a thank you to the many people who have helped.

MANUSCRIPTS

Table 1 shows the total number of manuscripts submitted in 2000 and their distribution between the main sections of the journal.

There has been a steady flow of material to the 'Main Articles' section. Overall, we accepted 14 per cent of the papers submitted in 2000; rejected 40 per cent; with 32 per cent either 'revise and resubmits' or still waiting for referees' reports. A further 8 per cent were withdrawn. The flow of articles to the 'European Forum' section increased and we accepted 1 in 3 submissions. Despite problems with late referees' reports, the average transaction time for manuscripts submitted to the 'Main Articles' section was 37 days. Allowing for the time taken to process the article in the office,

TABLE 1 *Manuscripts submitted, 2000, by journal section**

<i>Journal section</i>	<i>Number of manuscripts</i>
Main	57
European Forum	25
Public Management (including notes)	6
TOTAL	88

*Excludes conference papers and commissioned pieces.

TABLE 2 *Articles published, 2000, by journal section*

<i>Journal sections (excluding individual book reviews)</i>	<i>Number of articles</i>
Main	24
European Forum	16
Public Management (including Notes)	4
Other (editorials, obituaries)	3
Review articles	4
TOTAL	51

nearly all authors get a reply within 2 months. Unfortunately, there is always an exception. Thus, one manuscript took 132 days because the author sent the wrong version of the paper, the journal secretary was away, the editor was in Australia and the referees ignored us altogether. We sent a total 61 reminders to referees (out of 176 transactions). The problem was more acute for 'European Forum'. Most articles were turned around in six months or less but a significant number took up to a year (see below).

CONTENTS

Table 2 shows the number of articles published in 2000 for each section of the journal.

Table 3 classifies the articles published in 2000 by their subject matter. It uses the categories in Rhodes 1995 and Rhodes and Dargie 1997 and so updates their historical analysis of the journal's contents. It shows a wide distribution of material, apart from the planned increase in articles on Western Europe.

TABLE 3 *Articles published, by subject matter, 2000**

<i>Subject</i>	<i>2000</i>
Administrative Theory	3
Public Management	3
Public Policy Making	1
Accountability	1
UK Local Government and other sub-central bodies	9
UK Central Government	10
Comparative: Western Europe	15
EU	1
Other	3
TOTAL	46

*The table does not include editorials, review articles and obituaries.

MAIN ARTICLES

There have been no problems with either the quantity or quality of material submitted to this section and we continue to attract submissions from Australia and the USA as well as the UK. If there is a problem, it is the speed with which we publish accepted papers. It was always our aim to publish within 2 issues of acceptance but this is no longer possible and we are struggling to publish within 3–4 issues. There are always 15–20 articles awaiting publication. The trend reflects the ‘publish or perish’ ethos of British universities and the need to make space for the newcomers of the 1990s, ‘Public Management’ and the ‘European Forum’.

Because of the delays in handling some manuscripts, we have revised our procedures. To ensure that we have a quicker turnaround of manuscripts, we now have the following system:

- (1) Each article goes to three referees.
- (2) The author gets a decision when we have any two referees’ reports.
- (3) We allow 4 weeks before sending a reminder to a referee.
- (4) We reply with any available reports after 8 weeks.

There is a difficult trade-off between giving authors a quick decision and maintaining the highest possible standards. Authoritative reports from referees are essential to preserving standards. So, unfortunately, some authors will be cross with us (again) over delays because we insist the journal meets the highest standards. In mitigation, we handle most articles quickly and many American journals take much longer to decide. We will review our turnaround times again at the end of 2001.

EUROPEAN FORUM

There is still a distinctive pattern to submissions. We get most articles from North-west Europe and we continue to be disappointed with the number from France and Germany, let alone from Eastern European and Mediterranean countries. We will have to do more to encourage submissions from these countries; for example, by commissioning articles. And to repeat last year’s message, while we welcome material on the European Union, we do not want descriptive case studies that fail to address either a common problem or a theoretical issue of wide interest.

We continue to meet our target of 4 articles an issue and the journal should reach its target of at least 50 per cent of articles on European, comparative and international public administration in the next few years.

PUBLIC MANAGEMENT

During 2000 we published four ‘Public Management’ articles and ‘Notes’. We accepted eight other articles and notes and the section was full for the following year (volume 79). Nonetheless we want more practitioner-focused work or work targeted at a wider audience that engages with or comments critically on current events and developments in any country.

We also want more contributions to the 'Notes' section in which we publish research results and shorter studies. The new public management and associated developments are part of a worldwide trend in public administration and all we ask is that any contribution addresses issues of general concern.

REVIEWS

In recent years, the pressure on space has seen fewer reviews to cope with the increased volume of articles. With recent changes, there is more space available for reviews. We have expanded the reviews section in several ways: more review essays; more non-English language books; more discussion of public reports; and reviews of the newer media, including relevant WWW-pages and compact disks. Rod Rhodes still handles British books on British public administration.

To get better information about individual countries, we have a reviews advisory board composed of younger members of the profession. This innovation has been a success: for example, many wrote reviews of the structure of public administration teaching in their own country and the most popular textbooks. So, a big thank you to the Review Section Advisory Panel, all of whom are named below.

REVIEW SECTION ADVISORY PANEL

Jan Beyers (Leuven); Tanja Börzel Max-Planck Project Group, Bonn); Bernadette Connaughton (Limerick); Nicolai Dose (TU München); Annelise Fimreite (Bergen); Yvonne Fortin (Ecole normale supérieure de Cachan); Peter John (Birkbeck College, London); Sandra Kensen (Catholic University, Tilburg); Rudolfo Lewanski (Bologna); Elke Löffler (OECD); Helen Margetts (Birkbeck College, London); Ignacio Molina (Juan March Institute, Madrid); Stig Montin (Örebro); Wolfgang C. Müller (Wien); Christopher Reichard (Potsdam); Siv Sandberg (Aabo Akademi); Pascal Sciarini (Geneve); and Callioupe Spanou (Athens).

DEVELOPMENTS

Our plans for the journal are in the editorial in the first issue for 1999. We continue to carry out those proposals.

ACKNOWLEDGEMENTS

Every journal has a team of helpers. We would like to thank all members of the Editorial Board for their advice in general but most specifically for refereeing papers. Jean Frostick was the journal manager. She left in December 2000. Rod Rhodes first met her at the annual conference of the UK's Public Administration Committee (PAC) of the Joint University Council for Social and Public Administration (JUC) in 1972 when she was the JUC secretary. He then worked with her again after 1986 when, with Ivor Shelley, she ran *Public Administration* for the Royal Institute of Public Administration (RIPA). With Rod Rhodes she survived the RIPA's receiver-

ship and Rod assumed she and the journal would never be divorced. Amazingly, she chose early retirement in the form of a job with the British Medical Association (BMA). He can only assume it is early retirement. Why else leave a poorly paid job with long hours and impossible working conditions? All the editors wish to thank Jean for her unfailing good humour and hard work over the years but Rod Rhodes insists on a special thank you. After 31 years, flowers and lunch are mere tokens but heartfelt all the same.

Sally Crawford takes over from Jean. Born and educated in Scotland, she is a graduate of the London College of Printing where she trained as a periodical journalist, working as a health and medical correspondent and winning a national journalism prize in 1985. She also works as a freelance editor and project manager for the academic division of Palgrave Publishers Ltd, formerly Macmillan Press in the UK.

Celine Fitzmaurice, Angela Mulvenna and Karin Milovanovic also provided much appreciated administrative and secretarial support in 2000.

Finally, we must thank all our referees. They are essential to keeping the journal's standards high. We know they are busy people. There are no rewards for reading and commenting papers. As a small token of appreciation we list, in alphabetical, order all our referees in 2000.

REFEREES

Dr P. Ainley; M. Aldridge, University of Nottingham; Professor R. Baggott, De Montfort University; Professor P. Barberis, The Manchester Metropolitan University; A. Barker, University of Essex; Dr Rodney Barker, London School of Economics; Professor R. Barnett, Leeds Metropolitan University; Professor C. Bellamy, Nottingham Trent University; Dr M. Bevir, University of California; Professor J. Boston, Victoria University of Wellington; Dr G. Bouckaert, Katholieke Universiteit Leuven; Sir J. Bourn KCB, National Audit Office; Professor G. Boyne, Cardiff University; Professor J. Bradshaw, University of York; A. Butcher, Goldsmiths College; Dr N. Carter, University of York; Professor S. Cassese, University of Roma; Dr J.A. Chandler, Sheffield Business School; Professor R. Chapman, University of Durham; Dr M. Clarke, Kings College; Dr I.D. Colville, University of Bath; Professor M.E.H. Connolly, University of Glamorgan; Dr C. Copus, University of Birmingham; D. Cox, University of Manchester; P. Curwen, Sheffield Hallam University; H. Dean, University of Luton; Professor J. Dearlove, University of Sussex; Professor J.S. Ditch, The University of York; Dr D. Dolowitz, University of Liverpool; Professor G. Drewry, Royal Holloway & Bedford New College; Professor Morten Egeberg, University of Oslo; Professor H. Elcock, University of Northumbria; Andrew Erridge, University of Ulster; Dr M. Evans, University of York; Professor D. Farnham, University of Portsmouth; Rob Flynn, University of Salford; M. Foley, University of Wales; Sir Christopher Foster; Chris Game, University of Birmingham; Professor A. Gray, Durham University Business School; Dr John Greenaway, University

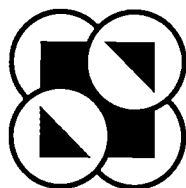
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